



Technologies Inc.

**Adventist Development and Relief Agency
(ADRA)**

MATCHING GRANT IV

Final Evaluation

April 3, 2000

Cooperative Agreement

No. FAO-A-00-96-90049-00

Prepared for the
Office of Private and Voluntary Cooperation
Bureau for Humanitarian Response
U.S. Agency for International Development

This report was prepared by AMA Technologies, Inc. under contract number
FAO-C-00-95-00036-00 with the Office of Private and Voluntary Cooperation,
Bureau for Humanitarian Response, USAID.

By: Philip Boyle

TABLE OF CONTENTS

	Page
List of Acronyms	v
Executive Summary	vi
I. PROGRAM IMPLEMENTATION	10
A. Achievement of Program Objectives	10
Progress toward Objectives	11
1. Refine the Village Banking Model and Apply in Peru	13
The Model and Its Performance	14
Appraisal of Progress toward Objective 1	17
2. Design and Implement Management Information Systems	16
ADRA/CO Tracking Systems	17
1. ALCHEMY	17
2. Financial Monitoring System	17
3. Project Tracking System	18
4. ADRA Banking (Central Office and Peru)	18
5. Future Global MIS System	20
Appraisal of Progress toward Objective 2	20
3. Design and Implement Operational Systems	20
Appraisal of Progress toward Objective 3	22
4. 55% Operational Self-sufficiency by Year 3 and 98% by Year 5	22
Appraisal of Progress toward Objective 4	23
5. Identify up to 5 Potential Countries to Implement New Programs	23
Appraisal of Progress toward Objective 5	24
6. Disseminate Village-banking Model through Education	24
Appraisal of Progress toward Objective 6	26
7. Independent Financial Institution for ADRA's MED Programs	26
Appraisal of Progress toward Objective 7	27
B. Progress toward Sustainability	28
Organizational Development	28
Institutionalization of Financial Services	28
Operational Sustainability and Program Design	29

Financial Sustainability	31
Phase-over Plan	31
The Peruvian EDPYME	32
Village Bank Graduation	33
Cost Recovery	35
Current and Projected Operational Sustainability	36
C. Status of Strategic Partnerships	37
Collaboration and Coordination	37
Partnerships	37
Appraisal of Partnership Activity	39
II. PROGRAM MANAGEMENT	41
A. Changes in Organizational Management	41
1. Strategic Approach and Program Planning	41
Strategic Planning for Organizational Development	41
The ADRA/Peru Business Plan	43
The ADRA/Peru Strategic Plan	44
2. Wider Organizational Influence of MG IV	44
Influence of MG IV within ADRA Central Office	44
Influence of MG IV within ADRA/Peru	45
Governance	46
B. Monitoring and Evaluation	47
C. Other Management Issues	47
Financial Management	47
Information	48
Logistics	48
Supervision	48
Human Resource Development	49
III. OVERALL CONCLUSIONS	50
IV. KEY RECOMMENDATIONS	53
ANNEXES	
Annex 1: List of Persons Interviewed	55
Annex 2: Documents Reviewed	57
Annex 3: List of Consultancies and Documentation under MG IV	58
Annex 4: Evaluation Scope of Work	61

LIST OF ACRONYMS

1. ADRA	Adventist Relief and Development Agency
2. ADRA/CO	ADRA Central Office (International)
3. AID	Agency for International Development (USAID)
4. APLI	ADRA Professional Leadership Institute
5. BCP	Banco de Credito del Peru
6. COPEME	Consortio para la Pequena y Mediana Empresa
7. CTAR	Consejo Transitorio de Administracion Regional
8. DIP	Detailed Implementation Plan
9. DOS	Disk Operating System
10. EA	External Account
11. ED	Economic Development
12. EDPYME	Entidad para la Pequena y Micro Empresa
13. FMIS	Financial Management Information System
14. FONCODES	Fondo de Compensacion para el Desarrollo
15. GEMS	Global Electronic Monitoring System
16. IA	Internal Account
17. IFOCC	Instituto de Fomento a la Comercializacion Campesina
18. IGV	Impuesto General sobre las Ventas
19. IR	Intermediate Result
20. MED	Micro-enterprise Development
21. MG	Matching Grant
22. MIS	Management Information System
23. NGO	Non-governmental Organization
24. PVC	Private and Voluntary Cooperation (Office)
25. PVO	Private and Voluntary Organization
26. SEEP	Small Enterprise Education and Promotion (Network)
27. SIPAN	Sistema de Intercambio de Programas de Anti-pobreza
28. TA	Technical Assistance
29. Title II	US Public Law 480 – Food for Peace Program
30. UNDP	United Nations Development Program
31. UNSAAC	Universidad San Antonio Abad del Cuzco
32. UPU	Universidad Peruana Union
33. USAID	United States Agency for International Development
34. VB	Village Bank

EXECUTIVE SUMMARY

In 1994 ADRA International entered into an agreement with the ADRA Country Office in Peru to design and implement a micro-finance lending program to alleviate poverty and generate sustainable economic development among small-scale, female entrepreneurs. The model chosen to achieve these objectives was that of village banking, a methodology already well known for its success in Latin America. The model program, moreover, was to be developed in such a way that it could be extended throughout the ADRA worldwide network of donor and recipient countries.

The vehicle by which ADRA sought to build its model program in Peru was a three-year Matching Grant between its Central Office and the Office of Private and Voluntary Cooperation (PVC) of the United States Agency for International Development (USAID). In this partnership, USAID contributed \$1.2 million and ADRA another \$1.415 million. Approximately, 80% of the funds were to be used to staff the Economic Development offices in international headquarters (ADRA/CO) and in the Peru country office (ADRA/Peru). Part of the start-up capital in Peru was transferred from an earlier, less successful credit program under USAID/Food for Peace.

This report constitutes the final evaluation of Matching Grant IV, the fourth and most recent of such agreements between USAID and ADRA. In this agreement an investment has been made by both agencies in the development and institutionalization of a highly specialized approach to poverty alleviation in the developing world

The cooperative agreement began in October 1996 and has been extended without further cost to September 2000. Approximately six months after grant initiation, a Detailed Implementation Plan provided the final statement of the intended program. Three annual reports by ADRA/CO (1997 to 1999) provide the major source of information on progress toward objectives. No external evaluation was conducted at the mid-term.

The final evaluation was conducted between January 9 – 20, 2000 and involved an external evaluator and personnel from ADRA Central Office. Two workdays were spent in ADRA headquarters and five in Peru: two in Cuzco and three in Lima. Evaluation activities included visits to two village banks in each program zone, to the regional office in Cuzco, and to the country office in Lima. Visits to partner and collaborating organizations also were made in both Cuzco and Lima.

The following objectives constitute the heart of the program:

1. Refine the village banking model and apply at the country level in Peru.
2. Design and implement management information systems.
3. Design and implement operational systems.
4. Achieve 55% operational self-sufficiency by end of Year 3 and 98% by Year 5.
5. Identify up to five potential countries to implement new programs.

Two other implementation activities are presented in the DIP logframe, but not in the text of the document. They continue to be reported on in annual reports.

6. Disseminate the village-banking model through an education process institution-wide.
7. Create an independent financial institution as umbrella for ADRA's worldwide MED programs.

Progress Toward Objectives

Progress toward key objectives has generally been satisfactory. An effective village-banking program has been successfully established in two urban areas of Peru—urban Cuzco and peri-urban Lima. In establishing this model, the experience of village-banking programs in Latin America was reviewed and study trips were made to Bolivia and Central America. Experienced practitioners were hired in ADRA/CO to staff the new Economic Development Office.

A financial management system for following grant inputs and expenditures and a comprehensive loan tracking and management system (ADRA Banking) have been developed and are functioning effectively in both headquarters and ADRA/Peru.

The establishment of management information systems has not resulted, however, in the creation of the Global Electronic Monitoring System (GEMS), an important part of initial expectations under this grant. Elsewhere in ADRA headquarters a number of elements of the GEMS have been developed, but the whole system has yet to be successfully integrated.

Effective operational and training systems have been developed by ADRA, both in headquarters and in ADRA/Peru. The Economic Development Office of ADRA/CO has assisted ADRA/Peru to develop and annually revise an Operations Manual. This contains the policies, procedures, rules, and regulations involved in launching and managing village banks in Peru. The Start-Up Manual in ADRA/CO pulls together a multitude of training materials used in the Peru experience and capable of further use in launching new programs. The Micro-finance Business Planning Guide contains the basic planning and assessment tools for use by ADRA country offices in evaluating their readiness to launch micro-finance programs. Finally, the Microfin Projection Model has been adapted from the World Bank (CGAP) model and is used currently in strategic planning in Peru. It can be extended to other country contexts on demand.

The three-year target of operational sustainability had been reached, even surpassed, by October 1999, when ADRA reported 56.5% coverage of its operating costs. Between October 1999 and January 2000, however, economic conditions in Peru worsened for small-scale entrepreneurs, leading to the closing of 18 banks, a loss of 16% of its banks, although only 9% of its clients. The current level of operational sustainability (January 2000) is 44.4 %.

The aggravation of the recession in Peru is attested to by other village-banking programs and by the USAID Mission. Even formal sector lending institutions have between 10% and 15% of

their loans in arrears. Nevertheless, ADRA/Peru faces a particularly challenging economic environment, even if it is common to the other micro-finance institutions.

Institutional sustainability of the ADRA/Peru micro-finance program was to be ensured through the creation of an autonomous financial entity. It was originally assumed that this entity would be an EDPYME, the only micro-credit institution officially chartered by the Peruvian government. Among its attributes is dispensation of the 18% general sales tax, which ADRA/Peru will soon begin to pay on all interest revenue generated by its village banks. While an application for EDPYME status was made in 1998 and accepted in 1999, ADRA/Peru has not yet decided on the structure it wishes to adopt.

Replication of the model in other countries, of which there are several examples, has not been carried out directly through partnerships between ADRA/CO and country offices, although technical assistance from ADRA/CO has generally been involved. Central Office is seeking to extend its own direct involvement in new program development through partnerships with other ADRA recipient countries.

On the other hand, through the ADRA Professional Leadership Institute (APLI), ADRA/CO has extended network training in micro-enterprise finance and development and institutional business planning worldwide through a series of four regional workshops in early 1999 (Costa Rica, Kenya, Peru, and Thailand). The course is also offered at Andrews University in the United States. In addition to other state-of-art materials, the basic planning and assessment tools developed under Matching Grant IV are used in this course.

Progress in the establishment of the independent financial entity in headquarters has been unsatisfactory. Progress toward this objective seems to have stalled early on in the grant.

In extending its grants to US PVOs, the Office of Private and Voluntary Cooperation seeks to strengthen the development capacity of these PVOs. It wishes to assist grantees to improve their self-sufficiency in service delivery by strengthening their operational and technical capacity, their ability to partner with local development organizations, and their capacity to strengthen these partners in turn.

Examined from this point of view, Matching Grant IV has also been generally effective. The objective of strengthening the US PVO led to the creation of a small, but dynamic unit in ADRA Central Office, that is seen throughout the organization as a harbinger of wider organizational change. The bottom-line rigor required by micro-finance programs is clearly recognized by other sectors. Although it is too early to see major changes in headquarters, systems thinking and the concept of self-sufficiency are now common currency.

In creating a village-banking program in Peru, ADRA/CO has had to develop training programs, adopt operational systems, design appropriate tools for financial management, loan tracking, and portfolio projection, and generate a process for strategic planning. Most of these tools can be used or replicated in other countries of the ADRA worldwide network.

The improved capacity of ADRA/Peru to deliver a cost-effective, micro-credit program is best evaluated by examining the service delivery program itself. This is why attention must be paid during evaluation to field operations, loan tracking system, strategic planning process and outcomes, training materials, and personnel quality.

The major challenge to ADRA/Peru is to maintain its march toward financial and organizational self-sufficiency and autonomy, which will not be easy under current economic difficulties. Although expansion of the program to new areas is seen as a means to reach efficiencies of scale, it can also bring new difficulties.

The major challenge to the Economic Development Office of ADRA/CO will be to extend its model directly to other developing country contexts through partnerships similar to that with ADRA/Peru. It will also be increasingly called upon to provide technical assistance to network donor countries. As its scale of activity increases, it should itself expand, before facing the challenge of converting itself into the autonomous entity that was foreseen under Matching Grant IV.

INTRODUCTION

This report constitutes the final evaluation of MG IV, a cooperative agreement between the United States Agency for International Development (USAID) and the Adventist Relief and Development Agency (ADRA). In this agreement an investment has been made by both agencies in the development and institutionalization of a specialized approach to poverty alleviation in the developing world. This approach, known as village banking, seeks to promote business development and profits among very small, generally female, entrepreneurs.

The cooperative agreement began in October 1996 and ends in September 2000, the last year of which includes a no-cost extension from USAID. Approximately six months after the beginning of the program, a Detailed Implementation Plan (DIP) provided the final statement of the intended program. Annual reports in 1997 through 1999 have reported on progress.

The evaluation was conducted by an outside evaluator, Dr. Philip Boyle, and consisted of a two-day visit to ADRA Central Office and a weeklong visit to the project site in Peru. Field visits were made to all village-banking sites, in both peri-urban Lima and in Cuzco. Carol Elwin (Director of Economic Development and acting Manager of MG4) and Ed Baber (Financial Grant Administrator) at ADRA Central Office accompanied and assisted the evaluator in Peru.

USAID provided a set of evaluation questions, largely focused on its particular interests in promoting the institutional development of ADRA/CO and ADRA/Peru. Basic objectives of the Matching Grant were the development of a sustainable village-banking model in Peru and the institutionalization within ADRA Central Office of the capacity to replicate the model elsewhere in the world.

In addition to these larger objectives, the cooperative agreement sought to achieve a number of lesser aims, particularly the creation of a global management information system and an independent financial lending institution, both of which were to function in ADRA Central Office for the benefit of the worldwide network.

I. PROGRAM IMPLEMENTATION

A. Achievement of Program Objectives

Program Objectives

According to the DIP (Section C), **Matching Grant IV** has dual goals:

1. Develop institutional capacity to design and implement micro-credit programs.
2. Contribute to the reduction of poverty through the provision of credit and other financial services to poor micro-entrepreneurs.

These goals were to be reached through the following interventions:

3. Refine the village banking model and apply at the country level in Peru.
4. Design and implement management information systems.
5. Design and implement operational systems.
6. Achieve a gradual increase in operational self-sufficiency to reach 55% percent by the end of Year 3 and 98% by Year 5.
7. Identify up to five potential countries to implement new programs.

Two other implementation activities are presented in the logframe (DIP Appendix C) but not in the text of the document. They continue to be reported on in annual reports.

8. Disseminate and apply the village-banking model through an education process institution-wide.
9. Create and organize an independent financial-lending institution to serve as the international technical and administration umbrella for ADRA's worldwide MED programs.

Progress toward Objectives

1. Refine the Village Banking Model and Apply in Peru

There are currently (January 19, 2000) 92 active village banks in the ADRA/Peru program. The number had been as high as 110 in mid-1999, but a recent aggravation of the economic recession in Peru led to the closing of 15 banks by October 1999, and three more by January 2000. The creditworthy members of these groups were transferred to more viable village banks. This translated into a 16% decrease in the number of village banks, but only a 9% decrease in client outreach. ADRA feels that the weaker banks have now been weeded out and the program can begin growing again.

Based on the three annual reports and the most recent portfolio report (12/31/99), values for 21 key indicators are given below. Values for financial sustainability are not yet being reported for the program, although the Microfin Projection (11/30/99) indicates an imputed capital deflation of 5% in FY 2000, 6% in FY 2001, and 9% in 2002. Financial sustainability is not yet an issue for ADRA, because its loan program is carried out in dollars. This may not always be the case in future, and even a dollar portfolio will lose its purchasing power over time.

Summary Table: Key Program Indicators

(Monetary values = US Dollars)

<u>Indicator</u>	<u>End Year 1</u> (9/30/97)	<u>End Year 2</u> (9/30/98)	<u>End Year 3</u> (9/30/99)	<u>End Q1 Year 4</u> (12/31/99)
Total clients	481	1,306	2,222	2,014
Active client loans	481	1,306	2,222	2,014
Total village banks	18	54	95	92
Clients/bank	26.7	24.2	23.4	21.9
Client dropout rate	27.2 %	18.3%	23.0%	9.4%
Loan value outstanding	\$21,197	\$92,438	\$188,865	\$193,143
Delinquency rate	N/A	3.8%	9.9%	8.2%
New VB loans disbursed	34	137	242	74
New client loans disbursed	N/A	3,375	5,566	N/A
Average new VB loan	\$2,355	\$2,991	\$5,137	\$2,417
Average client new loan	\$88	\$121	\$223	\$110 *
Loan repayment rate	N/A	96.2%	96.4% **	95.3% **
Number of credit officers	5	6	8	8
Banks per credit officer	3.6	8.0	11.9	11.5
Clients per credit officer	96.2	217.7	277.8	251.8
Loan value per officer	\$4,239	\$15,406	\$23,608	\$24,143
Total savings accumulated	\$10,636	\$57,020	\$93,326	\$92,128
Average savings per VB	\$591	\$1,056	\$982	\$1,001
Average savings per client	\$22	\$44	\$42	\$46
Operational Sustainability	5.6%	25.3%	56.6%	44.4%
Financial Sustainability	N/A	N/A	N/A	N/A

N/A = Not available.

* Only approximate. Calculated by using average number of clients per bank. The figure given in the Portfolio Report for 12/31/99 (\$88) appears too low, given the number of bank loans extended.

** Estimated by deducting arrears in excess of 90 days.

The level of operational self-sufficiency for all of FY 1999 is reported as 56.6% in the third annual report. However, the level of self-sufficiency for the first quarter of 2000 (October-December 1999) dropped to 44.4%. Obviously, this period is too short to be compared to the previous full year and also reflects village bank closings. It remains to be seen, moreover, what effect payment of the national sales tax (18% on all interest revenue) will have on operational

sustainability. This tax, waived until now by the Peruvian government, is expected to be levied beginning in March 2000.

Total outstanding loan balance as of January 19, 2000 was \$193,143.40 compared to \$188,865 three months earlier (3rd annual report). As of January 19, 8.2% of the outstanding loan balance was in arrears, with 4.7% of the portfolio in arrears over three months (from 91 to 180 days). Since it is unlikely that the latter group of loans will be repaid, one can reasonably calculate the current repayment rate at about 95.3%.

The Peru Model and Its Performance

The village bank model is similar to the basic model developed by FINCA and ACCION early in the 1980s for Latin America. As in every such program, there are also a few changes, notably the abandonment of the concept of graduation in favor of introducing new loan products and business advisory services. This is now common practice in village banking, since it has been found that village bank members resist graduation. Moreover, graduating the most experienced banks from a village-banking portfolio is not helpful in achieving and maintaining the operational sustainability of the sponsoring NGO.

Another common variation on the original model that has been adopted by ADRA/Peru has to do with the role of solidarity groups. While banks are organized into solidarity groups of four to seven members, the groups serve only as a mutual guarantee for members' loans. They are not a functioning intermediary stage in the lending and reimbursement process. Loans are disbursed from ADRA to the village banks through direct deposit into the VB commercial bank account. Individual loans to clients are then disbursed from the VB to the clients, either in the form of cash or checks, during VB meetings.

There are two loan accounts: the external account (EA) provided by ADRA/Peru each loan cycle, and the internal account (IA), maintained and largely managed by the village bank members themselves. Loan conditions for the EA are based on a cycle of 16 weeks, with repayments every two weeks (now every month in Cuzco). **The interest rate is 3% per month (four weeks), plus 2% of the loan for the full 16 weeks (equal to an additional 0.5% per month).** This may be compared to the informal moneylender rate of 20% per month. Formerly, interest was collected in advance, but this practice has been discontinued. It is now included along with principal repayment in the biweekly (monthly in Cuzco) repayments to ADRA.

Fines for overdue loans, absences, and tardiness to meetings are variable and are set by the VB members. Income from these sources, in addition to income from interest on Internal Account loans, are distributed as follows: 10% to VB loan loss reserve, 20% to VB equity, and 70% to client savings. **Client savings are also constituted through mandatory savings of 20% of the loan received by a member in a given cycle.**

Initial loan size is a minimum of \$75 and a maximum of \$100. Subsequent loan sizes are calculated as follows: previous loan size plus total accumulated savings times an eligibility factor that takes into account the attendance and repayment record of the client. The maximal

factor is one, so that any departure from a clean record results in reduced loan amount in the next cycle. **Maximum loan size is \$500.**

ADRA policy for client loan guarantee is as follows: solidarity group members cosign the loan application, place a lien on assets for both members and non-members, deposit the asset with the VB in the case of non-members, and record assets in an official asset declaration document. If solidarity group members and pledged assets fail to cover the delinquent balance, then the delinquent client's savings are affected, followed by the VB loan loss reserve. If the VB as a whole defaults on its loan from ADRA, then ADRA's loan loss reserve is affected.

Internal account proceeds are paid out to members as dividends at the end of each loan cycle, less 10% for a loan loss reserve and 20% paid into VB equity. Interest rates vary between those for members and non-members of the group and can sometimes be twice as high for non-members. In addition, non-members must provide collateral in the form of electric appliances, televisions, radios, and the like. Lending periods, unlike those of the EA, tend to be quite variable. While this fund is very popular among group members and can be quite profitable, it is also much riskier. It also competes with women's use of the external account from ADRA, thus potentially lowering operational sustainability.

Bank members may set the interest rate on the internal account equal to or greater than that on the external account. Loan periods, however, tend to be variable, running from one week to several months. They are not supposed to bridge loan cycles; that is any outstanding IA loans must be called in at the end of each EA cycle.

Another characteristic of member behavior is to sit out a loan cycle without a loan. According to figures provided to the evaluator in the Lima office, as of mid-January there were 92 passive members of a total of 1,319 VB members in Lima (7%) and 38 of 695 members in Cuzco (5.5%). The overall passive client rate was, thus, 6.5% (130 of 2,014 members). Since it is a policy that these women cannot take an internal account loan if they do not take one from the external account, a large number of passive clients can constitute an important loss of interest revenue to the micro-finance program. Passive clients, however, continue to save during the loan cycle and comply with all VB regulations.

ADRA/Peru estimates the total number of clients that are sitting out a cycle (passive members) and those behind in their payments at about 350, or about 17.4% of current bank members. This means that about 10.9%, or about 220 women, are currently behind in their payments. From data in the Portfolio Report from mid-January, we know that this involves approximately 8.2% of outstanding loans. Most of this delayed payment is made up at the end of the loan cycle.

In fairness to ADRA, the number of passive clients seems to be higher than normal, because three village banks are in the process of recapitalization (according to the Portfolio Report for 12.31/99). **The usual rate of passive membership is said to be about one member per village bank, or about 4.5% of all clients.**

Rotation of membership and relatively small group size are other problems facing ADRA in its village-banking program. Current average group membership is 22, whereas 25 is considered by ADRA to be ideal. On the other hand, **turnover of membership is estimated by ADRA to be about 20% per loan cycle.** After 3 years of activity, the “Union del Progreso” bank group in Huaycan (Lima) had only retained 4 of its original 25 members. Its current membership was 20. After a similar period of activity the “Rikchary Warmy” group in Cuzco contained only 11 of its 34 founding members, with a current membership of 22.

The problem of high client rotation in village banks is characteristic of Latin America, and Peru is no exception. ADRA’s village banks do not appear less stable than those of similar programs in Peru.

The ADRA program has 8 credit officers, with 4 volunteers currently undergoing on-the-job training. The 8 officers have from 8 to 14 banks, depending on location and bank size.

There are 33 village banks in the Cuzco area, divided into credit officer workloads of 8, 12, and 13 banks for the three officers in that region. In Lima the workloads are 10, 10, 12, 13, and 14, for a total of 59 banks. Only one of the 8 credit officers is male, and all trainee volunteers are female. Twelve banks are considered an ideal for management purposes, and the current average is 11.5. Total membership of these banks is 2,014 women, making an average of nearly 252 women per promoter. The target number per credit officer is between 280 and 350 women.

In each program area a small local office has been set up, so that promoters have a place to store documents and meet at the end of each workday. Every two weeks the entire local team (Lima and Cuzco separately) holds a meeting of all credit officers (promoters) in that area, and every six months the entire set of promoters assembles in Lima to discuss issues. Credit officers are equipped with cellular phones, in order to be in constant contact with the central office ED financial officer or ED director. The cost of the phones is more than offset by the savings generated from not having to meet more often in headquarters.

New clients were at first actively sought by credit officers, but now prospective group members tend to drop by local offices or are recommended by members of existing village bank groups. Lists of prospective or actual clients are constantly exchanged with other NGOs engaging in village banking activities in the same or neighboring areas. ADRA/Peru also runs credit checks on the women through a commercial firm (Infocorp). Most, of course, have no record at all.

Appraisal of Progress toward Objective One

The ADRA/Peru model appears well adapted to country context and is functioning satisfactorily, although there is room for improvement. The program has been successfully installed in two regions and an effective central management unit supports credit activities from central Lima (Miraflores). Credit officers are motivated, competent, and have an excellent relationship with VB clients. The clients themselves appear to administer their banks as well as elsewhere in Latin America. Loan provision and repayment are within industry standards.

In sum, ADRA has created an effective VB core program that presents no major weaknesses. The only important problem confronting the program is the severe Peruvian recession, over which it has no control other than to restrain the size of client loans and more carefully screen new bank members.

There is always room for improvement in any program. The number of groups, group size, and number of groups per credit officer should all increase to improve the level of operational sustainability. ADRA is well aware of the need to reach operational self-sufficiency and has chosen to expand their program to one other region.

Financial projections for the next four years have been made by means of the CGAP Microfin model, which used previous trends in regard to financial ratios and operational costs. ADRA recognizes that, in order to reach sufficient scale, the VB program will incur additional costs and that these costs will initially outpace interest revenue. It is confidently expected that revenue will rise above costs within the next two to three years. The dilemma is how to push ahead to operational sustainability, without compromising the accomplishments of the existing program.

ADRA can be given high marks for their implantation of the village banking model in Peru, and for its decision to reach for sustainability through expansion. Issues of client turnover and passivity, not unique to ADRA's program, will have to be studied further and addressed. The program will need to seek ways to expand the number of village banks, the average number of members, and the number of groups per credit officer as their program rises to the projected level of serving 11,000 VB clients.

2. Design and Implement Management Information Systems

ADRA/CO and ADRA/Peru have developed all necessary accounting, financial management, information, reporting, and internal control systems for their village-banking program in Peru. These systems are accompanied by relevant procedures and regulations, many in the form of user manuals.

These systems do not constitute, strictly speaking, the Global Electronic Monitoring System (GEMS) presented in the MG proposal and discussed at greater length in the DIP. However, elements of these systems form the basis for future development of GEMS.

While GEMS is not specifically listed as the product referred to under Objective 2, the DIP implies this to be the case under Section D (Project Information System) in the main text. The DIP states that:

"ADRA International's Central Office will develop a Global Electronic Monitoring System entitled - 'GEMS'. This system will provide ADRA with the capacity to electronically maintain, transfer and manage large volumes of data from a central location." The text goes on to say that first the accounting package will be modified or replaced, followed by the upgrading of the

financial software. Finally, the two systems will be related to each other in order to provide consolidated reports with required periodicity.

While both the accounting system and loan tracking system (ADRA Banking) exist for the village banking programs, the latter has just been upgraded from FoxPro to DELPHI. Data are still being updated in the new version of ADRA Banking.

These systems stop somewhat short of what the MG envisioned as a Global Electronic Monitoring System, but ADRA/CO has made a start in developing such a unified--and global--management tool. The following section briefly summarizes where these systems currently stand.

ADRA/CO Tracking Systems

Although no GEMS system has been developed, as originally planned in the project proposal and the DIP, elements of what will become this overall system have emerged during the course of MG IV. These systems include a document tracking system, a project tracking system, a loan tracking system (ADRA Banking), and a financial monitoring system. GEMS, however, continues to remain a vision for uniting these various systems, each of which is operating independently with a separate computer program.

a. ALCHEMY

This is a database for all six ADRA/CO bureaus: Planning, Program Management, Human Resources, Finance and Operations, Marketing and Development, and Internal Controls and Compliance. It is essentially a document-tracking database, and one person in each bureau will be responsible for using it and teaching its use to others. Its main focus is on grants management, and it is nearly completed and in operation. Manuals for its use will be developed over the next year. Its use is limited to ADRA/CO only. It is one part of the future GEMS, although it will need to be extended internationally at some point.

b. Financial Monitoring System

This system, operating in the Finance and Operations Bureau of ADRA/CO, is responsible for general financial tracking of all USAID grants. ADRA/CO now tracks 32 USAID-funded projects in 21 countries worldwide. Reports on the financial status of these projects are prepared monthly. From these, other reports are distributed: an executive summary of status is sent to upper management and a detailed presentation broken out by major items is sent to Program Management Bureau with burn rates and red flags attached. The Program Management Bureau also receives an analysis of the financial statements with supporting documentation.

The Program Management Bureau in ADRA/CO now consists of 4 senior grant administrators and 2 financial grant administrators, who divide their portfolios by countries, not sectors.

By comparison, **the Economic Development group within the Program Bureau now consists of three technical staff (one at 50% time) and two support staff.** At the start of MG IV a fourth technical staff member was present (director of ED, but only 50% time), but he has left the organization.

c. Project Tracking System

The project tracking system is in the database program of Lotus Notes and can be accessed on a website through the appropriate password. In theory, all projects should be posted to the website for consultation by members of the ADRA network. It has made slow progress to date, since country offices do not always supply required information. The tracking system manager in ADRA/CO is currently entering projects back into the 1980's. This system has been 1 1/2 years in the making, but it will be some time before it is fully operational. It is seen to be another part of the eventual GEMS.

d. ADRA Banking (Central Office and Peru)

The loan tracking system was originally in DOS-based FoxPro and had been purchased from an independent consultant and systems analyst. Since ADRA/Peru had in-house capacity for providing maintenance to systems in DELPHI, the supplier upgraded the former system to DELPHI, and the new version was installed in Lima in September 1999. The updating of data to the current system -- ADRA Banking -- was nearly complete at the time of this final evaluation. ADRA Banking files are zipped and sent to ADRA/CO from the Peru country office. The capacity for each region to track its separate portfolio has also been developed in Peru for introduction to Cuzco and new regions of future activity.

Information entered into the new system comes from credit officers and from the Banco de Credito del Peru, where village bank and ADRA accounts are located. Principal payments and savings deposits from the clients to the village bank are made during bank meetings. Designated members of the VB Administrative Committee (management board) then make the corresponding deposits of principal payment to ADRA/Peru's account, and the remaining cash balance (clients savings) is deposited to the village bank account.

Loans are extended in reverse order. ADRA transfers necessary money into the village bank account to which checks are written from the VB management board to individual members according to their approved loan amounts.

ADRA Banking is a financial information system that was first developed in 1997 to respond to the need to monitor its credit portfolio. Although the system is not permitted to interact directly with the overall accounting system or with village bank accounts in the commercial bank, it has been designed to satisfy the needs of an organization that extends individual or group credit services.

ADRA Banking is a package of computerized programs developed within the Windows operating environment. It appears to be a fairly simple and user-friendly program. The Office

of Economic Development at ADRA/CO has developed an installation and operations manual to accompany the system, which incorporates a memorandum of understanding stating the terms under which a country or branch office may receive the system and its operating license.

ADRA Banking's basic configuration windows are:

1. General Program Data
2. Latest Assigned Codes
3. Updating the Fiscal Year
4. Bank Accounts
5. Economic Activities
6. Geographic Areas
7. Communities
8. Program Supervisors
9. Program Credit Officers
10. Causes of Client Desertion
11. Currency Exchange Rates

ADRA Banking contains the following windows for registering information relating to group credit activities:

12. Registration of Groups (Village Banks)
13. Group Loan Request
14. Approval of Loan Request
15. Group Loan Payment Plan
16. Recovery of Group Loans
17. Group Loan Initial Balance
18. Financial Monitoring of Group Loans
19. Register of Clients in Credit Groups
20. External Account Loans by Client by Client Group
21. Loan Write-off from the Group Portfolio

ADRA Banking also has a set of windows relating to individual loan clients. Although this aspect of credit activities has not yet begun in Peru, there is an individual loan program in Azerbaijan. It is expected that over time in Peru individuals within village banking groups will begin to receive individual loans, while still remaining village bank members. This is fairly common practice in the village-banking field.

Windows under individual loans are:

22. Register of Individual Loan Clients
23. Individual Loan Request
24. Individual Loan Approval

25. Payment Plan for Individual Loans
26. Individual Loan Recovery
27. Write-off of Unrecoverable Loans

ADRA Banking has been installed in ADRA/CO, Peru country office, and in Cuzco region. Each level is distinguished by a special code. Files are zipped and emailed from one level to another.

e. Future Global MIS System

ADRA/CO conceives of an ideal GEMS that will contain 8 modules, one for each sector of activity within ADRA. Thus, there will eventually be modules on: project tracking; economic development and credit; health programs; food security programs; agriculture programs; infrastructure development, disaster responses and preparedness; and agency statistics. Financial and accounting data from at least four of these sectors will be posted to their own websites: economic development/credit; health; food security; and disaster response and preparedness. The idea is to develop GEMS in Microsoft Access or other relational database program. While ADRA/CO will maintain a master website, each country office will have its own particular site. A master MIS module will be able to create a module for consolidated reports for the worldwide network. It is not clear when this system will begin to function. It is indeed visionary.

Appraisal of Progress toward Objective 2

While ADRA has failed to develop the GEMS as originally envisioned, their financial monitoring and loan tracking systems are operating satisfactorily. These appear to be fully adequate in their support of the Peru village-banking program and capable of replication in new country contexts. It has already been extended to Azerbaijan.

3. Design and Implement Operational Systems.

Operational systems are discussed in a variety of places in this report. The systems run from those contained in the impressive Operations Manual for village-banking activities, now into its fourth yearly revision, to the financial monitoring and ADRA Banking tracking systems.

ADRA has taken pains to systematize and document its village-banking program, although development of the final portfolio tracking system has been somewhat slow (only now receiving final data from the other database). The new ADRA Banking system and its manual are discussed elsewhere.

The ADRA/CO Start-Up Manual (“Delivery of Financial Services: The Village Banking Methodology”) is a huge compendium of training and teaching materials developed through the experience of launching the Peru village-banking program. It contains all the overheads and other materials necessary to replicate the program elsewhere, but it requires organization into summary sections and descriptive material, so that it can be employed as a manual by other network practitioners.

Some of the Start-Up Manual materials examined during the evaluation are the Start-Up Training Module (10 days), Guide to the Definition of Policies and Procedures for the Village Bank Program, and the training materials involved in assessing clients interested in forming a village bank. These all appear to be effective and state-of-art materials.

The ADRA Operations Manual contains all the regulations, rules, tables, forms and other paraphernalia required to launch and manage a village banking program. The manual has been revised each year, since 1996. The 1998 manual contains sections on:

1. Policies and Procedures
2. Regulations
3. Promotional Plan
4. Motivational Plan
5. Training Plan
6. Documents formats
7. General aspects
8. Annual Operational Plan for 1998

The 1998 annual operational plan presents in logframe form each of the 11 results to be obtained that year, broken out by activities, responsibilities, timing, and resources. Each Manual presumably contains the same action plan for the year ahead. The Manual is thus revised based on the experience and accomplishments of the previous year, while at the same time serving as a plan for the next year.

The Guide to Developing Business Plans for Micro-finance Institutions was developed in mid-1998 with the assistance of consultants provided through a grant from SEEP and Citicorp. Key materials from this guide were examined during the evaluation and consist of those pertaining to country assessment and planning in the process of launching new or improving existing micro-finance programs. The three key planning tools examined are: “Tool for Institutional Review and Analysis”, “Tool for Analysis of the Strategic Environment”, and “Sample Questionnaire for Interviewing Potential Clients.”

The institutional review deals with the organizational capacity of the country office, covering its relationship with the ADRA network, the board of directors, country director, legal considerations, administrative structure, credit program personnel, administrative personnel, personnel recruitment, staff training, promotion and retention of personnel, evaluation of work performance, service delivery, management systems, sources of financing, and management of financial resources. Each section consists of detailed questions regarding the topic at hand.

The strategic environmental review deals with assessing the specific financial and non-financial products that can be offered in a particular country and socio-economic setting. Financial products include credit and savings, while non-financial products are: business training, technical assistance, business associations, and marketing links or intermediation. The review then turns to an evaluation of the environment within which the credit program will operate and

finally to decisions regarding the structure, policies, and procedures to be employed. The review includes sections on: client profile, market profile, macro-economic environment, regulatory framework, competitive environment, and the process of investigation and collection of information. Every section consists of numerous questions to be considered.

The sample questionnaire for interviewing potential clients is a list of 31 key questions to be put to prospective village bank members during the planning phase of a new micro-enterprise program. Respondents are to be selected randomly among those wishing to launch village banks.

Appraisal of Progress toward Objective 3

All in all, ADRA has taken pains to develop excellent policies, tools, techniques, and procedures to support its village banking system. All of the materials examined were of high quality. These are supplied to other network countries wishing to launch micro-finance programs and they are used in the worldwide network training under the ADRA Professional Leadership Institute. ADRA/CO and ADRA/Peru have realized excellent progress under this objective.

4. Achieve 55% Operational Self-sufficiency by end of Year 3 and 98% by Year 5.

The fact that operational self-sufficiency recently slipped off target (from 56.5% in October 1999 to 44.4% in mid-January 2000) may be due to the economic difficulties now facing Peru. On the other hand, the recession has been in full swing since the Asian financial crisis and its aftermath the Brazilian/Russian crisis of the following year (1998).

Why the economic situation should have resulted in recent troubles for micro-entrepreneurs is not clear, although it appears that the tight money policy pursued by the Peruvian government may have finally taken its toll. Largely as a result of governmental fiscal and monetary restraint, inflation appears to be tame currently, running at about 4% in 1999. In any case, the small and micro-business sectors in Peru are currently severely depressed.

Regardless of the causes of the recent aggravation of recession in Peru, ADRA/Peru has been struggling to hold its portfolio at current levels and to lay the bases for renewed growth. While ADRA had been making excellent progress toward operational sustainability, because of current conditions it is unlikely to reach its original objective of 98% sustainability by October 2001 (according to the DIP).

ADRA's Microfin Projection of 11/30/99 stipulates, in fact, a level of 71% by October 2000 and 85% by the end of FY 2001, although its Portfolio Report for 12/31/99 indicates a level of operational self-sufficiency for the previous quarter (**October to December 1999**) of **44.4%**. The same projection indicates a level of 104% by end of FY 2002, 138% by FY 2003, and 161% by end of FY 2004 (October, 2005)

During the evaluation, **ADRA revised its projection to a level of operational sustainability of 108% for 2005**, and this apparently includes all costs associated with the Peruvian sales tax. Achievement of this level of self-sufficiency is in large part dependent on increasing the scale of

operations through expansion to at least one new program area. It is apparent that this level of operational self-sufficiency has been scaled back to reflect current economic conditions in Peru, which have adversely affected the performance of all village-banking portfolios. The director of FINCA/Peru attested to this fact, as well as USAID/Peru.

How the 18% Peruvian sales tax will be absorbed is an issue facing ADRA/Peru at present, although association with their own or another EDPYME can dispense them of this tax. If they decide to absorb the tax, at some point it should be passed on to the clients themselves, much as bank members have assumed currency risk through the use of dollars. It is not clear, however, who will pay the sales tax on internal account interest revenue. Presumably both types of interest revenue will have to be taxed through the village-banking program.

Appraisal of Progress toward Objective 4

There is no easy answer to the problem of achieving sustainability. Very few micro-finance organizations in the evaluator's experience have reached this point; full financial sustainability is particularly elusive. There seems to be nothing that ADRA is doing that can be faulted. After less than three years, the program was on course, even slightly exceeding its target of 55% sustainability. Since then, the level has dropped to 44.4% and the recession continues unabated. Marginal clients and banks have dropped out of the system, and client and VB bank loans have decreased as clients reduce their credit exposure in the face of declining business revenue. Recommendations for increasing the pace toward sustainability center on increasing the scale of operations through growing the number of banks and clients in banks, increasing loan size, and lowering overhead by increasing the number of banks per credit officer and holding down overhead at the Lima and regional offices.

USAID/Peru expressed the opinion (meeting of 1/19/00) that ADRA was moving too cautiously in growing its portfolio, but ADRA, understandably, does not want to push ahead imprudently. The director of FINCA/Peru attested to the fact that FINCA had overreached and had to shrink the number of its banks significantly in the aftermath of the Asian/Latin American financial crisis and recession. As has been seen previously, ADRA has lost 18 (16%) of its own banks since September 1999, although it kept most of its creditworthy clients by moving them to other banks.

In spite of recent difficulties, ADRA has performed satisfactorily in its quest for operational self-sufficiency.

5. Identify up to 5 Potential Countries to Implement New Programs.

ADRA has recently proposed program expansion to Ghana, in addition to its individual loan project in Azerbaijan (USAID funded). Ghana was already proposed in the November 1995 MG IV application, so that it was presumably already considered ready for a program at that time.

Although program expansion is not key to the success of their model in Peru, it is a possible indicator that ADRA/CO wishes to refine this model further before requesting extension to new

countries other than the one already proposed in 1995. ADRA is correct in being cautious at present, because the Peru model has yet to achieve the scale and cost-efficiency necessary to be considered sustainable. The next three to five years will be crucial in reaching the level of operational sustainability and institutional self-sufficiency that ADRA/Peru has been pursuing since 1996.

ADRA points out that what is important in understanding expansion to new countries is the planning process by which the local ADRA country office identifies its potential for implementing a successful program and then prepares a proposal for funding. While that information is not contained in any of the annual reports, it can be presumed that it has taken more time than foreseen in 1995. Certainly, it was effective in the case of Peru, but Peru probably benefited from knowledge gained (and mistakes made) in a previous credit program funded under Title II. .

On the other hand, while ADRA/CO has been reluctant to overextend itself in the new grant proposal, the model has been adopted and heralded by other donor ADRA organizations for use in a wide variety of country contexts. Some of these programs have been mentioned under the section on dissemination. An important case in point is a micro-finance program in Honduras launched in 1999 with funding from the European Union, that has replicated the ADRA village bank methodology and the operational and management systems developed under MG IV. Other examples of model dissemination and replication are start-up programs in Georgia, beginning in April 2000, and in Guinea-Conakry in September 2000, both funded by USAID, and proposed programs for Indonesia and Bolivia, to be funded by USDA and the EU, respectively.

Appraisal of Progress toward Objective 5

Although ADRA/CO has not partnered directly with other network members' donor or recipient countries in launching new micro-finance programs beyond Azerbaijan, it appears ready to do so in Ghana. Central Office materials and technical assistance appear instrumental in at least five other actual or proposed new programs. The objective of identifying up to five new countries for extension of the Peru experience appears to have been successfully accomplished, if this does not imply that ADRA/CO is an implementing partner.

6. Disseminate and Apply the Village-banking Model Institution-wide through Education.

ADRA/CO has established an international training course for its many affiliates around the world, both funding and implementing country offices. The program, originally set up for purposes of Title II, now offers major training sessions in economic development. The economic development training session is part of the ADRA Professional Leadership Institute (APLI) Masters Program, and lasts two weeks when offered in the field. **Training was conducted in four regional sites – Kenya, Peru, Costa Rica and Thailand – between January and April 1999. A total of 280 participants**, involving practitioners and leaders from ADRA implementing country offices, attended the session. The session was followed by a three-day workshop on Institutional Business Planning led by the Office of Economic Development and an external consultant.

The micro-enterprise finance and development course offers the following 14 lessons:

- a. The evolving micro-enterprise finance industry
- b. Myths and realities relating to micro-enterprise finance
- c. Principles of micro-enterprise financing
- d. Trends in resource mobilization for micro-enterprise finance
- e. The evolution of legal frameworks for NGOs as financial intermediaries
- f. The process of institutional development
- g. Planning and designing a micro-finance initiative
- h. Models of financial service delivery
- i. Savings products
- j. Operational and management systems
- k. Non-financial service delivery
- l. Roundtable summary discussions
- m. Assessing impact
- n. Individual presentations and group discussions

The institutional business planning workshop that follows the first course, consists of the following main sections:

1. Overview of business planning for micro-finance institutions
2. Business planning framework (with strategic planning)
3. Operational planning
4. Microfin projection model
5. FMIS data collection forms
6. ADRA's electronic FMIS

Partly as a result of this training course, many donor country ADRA organizations have sought more explicit help from ADRA/CO, particularly concerning the creation of village banking programs. Since Peru is the model for such programs within the ADRA network, lessons learned there are shared with all interested parties.

Some of the examples given of such network influence are the technical assistance provided by ADRA/CO to ADRA/Germany for a project in Honduras and TA to ADRA/Australia for a project in Indonesia. In each case, the host country ADRA office sought financial support from a donor ADRA office, which in turn requested assistance in economic development from ADRA/CO.

Partial-program TA has also been offered by ADRA/CO. ADRA/Bangladesh has been implementing a group-lending program for the past six years funded through ADRA/Sweden. Technical assistance in revising the program's information system has been provided by the central ED Office. Countries requesting technical assistance cover all costs related to travel and per diems of ADRA/CO staff.

Although currently there is no charge for TA services provided, it is considered in the strategic plan as a cost recovery method to become effective with all start-up programs beginning in 2000.

Appraisal of Progress toward Objective 6

The personnel of ADRA/CO believe that training through the APLI program will contribute greatly to improving how the network implements economic development initiatives. There is certainly heightened interest within the worldwide network in obtaining TA from ADRA/CO for the design and implementation of programs. The use of APLI and the existence of a far-flung network of ADRA donor and recipient countries makes ADRA Central Office a potential major player in the field of micro-finance, assuming the network embraces the business orientation of the model. ADRA/CO appears to be making excellent progress in disseminating the model and its philosophy of financial rigor.

7. Create an Independent Financial Institution for ADRA's MED Programs Worldwide.

This often-discussed objective in early reports has gone nowhere. The first annual report indicates that the ADRA Central Office accepted the idea, but subsequent progress appears to have stalled. Little or nothing has been said recently concerning this project, although it must be presumed to be still active. There is no sense that it will be realized within the next 2-3 years.

There was little mention of this Central Office entity during the evaluation. Much of the discussion with executives and specialists in ADRA/CO centered on the influence of the Economic Development Office on the wider international organization and on what had happened to the GEMS.

Just as ADRA/Peru will convert its Economic Development Unit into an autonomous entity at some point in the future, whether it be an EDPYME or another independent structure, the evaluator assumes that this is also the plan for the Economic Development Office in ADRA/CO.

The DIP states: "The International Financial or International Credit Board (ICB) will also be created and remain under the umbrella of ADRA International until such time it is deemed appropriate to give it full independence. It will have its own board in which ADRA International will have the controlling power initially. After full self-sufficiency is reached, ADRA International plans to reduce its controls and remain a regular member."

The DIP goes on to say with respect to the Peruvian financial institution: "The local Financial Institution which will be created will be headed by a Board of Directors consisting of leaders with financial leadership skills and experience and selected through an established and agreed upon criteria. ADRA will continue to remain active through the institution and will therefore be a full-member of the Board. ADRA International will also have a controlling seat on the Board."

Although there was a good deal of discussion about why ADRA had not moved very far in the creation of the local (Peruvian) financial entity, there was little discussion during the evaluation

of the umbrella entity in ADRA/CO. Perhaps other topics crowded this out in the brief period spent in ADRA/CO.

That this entity was once considered important is still attested to in the first Annual Report (October 1997), which states: “Perhaps one of the most important strategies for developing credit programming capacity as a sustainable strategy at the Central Office and network levels is to create a new entity which will be “umbrellaed” under ADRA in its initial stages and eventually become a separate institution in its own right. In this reporting period, the ADRA Central Office has agreed to implement such a strategy but has not yet taken the legal steps to officially form this entity. This is a task which will take place in year two and three of the Matching Grant program.”

The second Annual Report states in respect to this objective: “ADRA Central Office does not expect to accomplish the establishment of an independent financial institution by the end of Year Three. Although ADRA Central Office’s strategic plan, presented with last year’s Annual Report, outlines specific steps to incorporate the Economic Development Fund, the next steps in developing bylaws and statutes to legally incorporate the institution have not taken place.”

The third Annual Report (October 1999) contains no narrative on progress toward this independent financial lending institution, although there is mention of it in Appendix 1 – the project logframe. The first of the five expected outputs under this objective in the logframe may contain the reason for lack of progress in ADRA/CO, since it requires a “functioning financial institution at HQ and Peru.” Since the output has not yet been achieved in Peru, it is assumed that headquarters will wait until that has been achieved, or at least is well under way.

The other four outputs listed are: trained Board members; achievement of financial and economic growth in self-sufficiency; developed capacity for mobilizing loan capital and other financial resources; and formal linkages created between ADRA and country levels. Under Accomplishments in the logframe, the first output (a functioning financial institution in CO and Peru) is indicated to have received a certain amount of attention in Years 1 and 2, including the completion of a feasibility study, approval in headquarters of an independent financial institution, submission of an application for constitution submitted to the Peruvian regulatory body (for EDPYME status), and a process of “institutional business planning initiated under the leadership of a financial advisory team.”

Other accomplishments and activities toward the same are not listed for Year 3. They are all qualified by the words “not addressed” or “not applicable” in Year 3. The Annual Report for Year 3 should have discussed the reasons for this state of affairs.

Appraisal of Progress toward Objective 7

It is obvious that progress has been unsatisfactory in the creation of the independent financial institution in headquarters. Progress toward independent status in Peru has also been less than satisfactory, since decisions about the course to follow should have been taken by now. Perhaps the decision to transform the Economic Development office in ADRA/Peru into an EDPYME

was taken and later rejected, although the evaluator's impression was that management had continued to study the problem to the present.

Recent economic and portfolio problems have certainly not been conducive to focusing on the larger institutional problem. Since the future form and functions of the Peruvian ED office are an integral part of the institutional sustainability of this program, definitive decisions regarding the type of independent entity should be taken soon, since transformation into this entity may take several years more.

B. Progress toward Sustainability

According to Section E of the Detailed Implementation Plan, sustainability is seen as an issue of self-sufficiency at both the institutional and program levels. Three issues are considered key in reaching self-sufficiency: organizational development; institutionalization of financial services; and program design.

Organizational Development

Under organizational development, ADRA proposed an on-going education process at all levels from the international network of affiliates down to country operations in Peru. The objective was to change organizational attitudes and perceptions regarding micro-lending services by introducing a new model based on the concept of financial self-sufficiency. To engineer this paradigm shift within ADRA, whose organizational culture stressed poverty alleviation through donations and good works, a whole series of external and internal training events, conferences, summits, working groups, and informational materials were considered, the exact form and number of which would be developed over the course of the Matching Grant.

This objective seems to have been satisfactorily achieved. Conversations in both Central Office and in ADRA/Peru revealed awareness of the novelty and importance of economic development programs. In both Peru and in ADRA/CO, economic development units are considered to be permanent additions to their organizational structures. These units have, however, remained small and highly dependent on the current Matching Grant, while economic development activities within ADRA continue to be focused primarily on the village banking model. While ADRA has not yet moved beyond the village-banking model in Peru, although this is intended in the future, operational and management systems developed under MG IV have already been adapted for replication in countries using other group-lending models (such as solidarity groups in Azerbaijan serving a rural population and individual lending), in order to fit the social, economic and institutional context of each country.

Institutionalization of Financial Services

The sustainability strategy for financial services required the development and institutionalization of independent financial institutions at both the central and Peru field offices. This was considered necessary to diversify sources of funding for micro-lending programs, as

well as to build a structure that might assist in the development of small and micro-enterprises in other developing countries.

As has been seen, little progress has been made under MG IV in the development and institutionalization of these financial institutions. Neither economic development unit, whether in Central Office or in ADRA/Peru, has yet the size or the expertise to convert itself into an independent financial institution.

In the third quarter of calendar 1998, ADRA/Peru went through an institutional business planning process under the facilitation of an external financial consultant. From this exercise emerged an institutional business plan for the creation of an EDPYME, which outlined the structure, managerial functions, financing, operations, and next steps. In 1999, ADRA/Peru conducted an institutional review and strategic environmental assessment leading directly to the Economic Development Unit's strategic plan for the next five years.

A copy of the 1999 country office strategic and operational plan and a copy of the ADRA/CO Economic Development Office strategic plan were presented to the evaluator during the evaluation. However, the evaluator did not receive a copy of the 1998 ADRA/Peru institutional business plan, although there is an earlier one appended to the first Annual Report (October 1997).

Operational Sustainability and Program Design

The third element of sustainability involves program design. This design, in turn, focuses on three issues: performance, full-cost pricing, and maximization of efficiency. By means of stressing portfolio performance, cost recovery of services, and efficient operations, ADRA proposed to attain high repayment rates—97% by Year 3—and a level of operational coverage of 98% by Year 5. The current repayment rate appears slightly below target at 95.3%.

Generation of mandatory client savings was also seen as a means to guard against portfolio losses, and the level of such savings was soon raised from 10% to 20% of loan value. The Village Banking Credit and Savings Manual provided to the consultant (1998 version) clearly states (p. 9) with respect to the External Account that “the principal form of guarantee for EA loans will be savings.” Further on in the same work (p.12) and referring to unrecoverable VB loans, it is stated that “if there are insufficient reserves to cover the loan, first to be affected will be the VB's own capital, and secondly members' savings will be used to reimburse the program.”

Except in the case of Internal Account use, there is no mention in the operations manual of an asset registry or of assets held as collateral. Savings are also the vehicle by which village bank groups can become more profitable for members, since savings can be lent at higher rates of interest to outsiders. In loans to outsiders, risk is minimized by holding collateral, such as appliances or television sets.

ADRA states in its discussion of sustainability that interest and commission rates have been set to cover all costs by the fifth year of the project, although Matching Grant IV was only to cover the first three of these (extended in 1999 to four years through a no-cost extension). A commitment to continue this program appears to be in place, unrelated to whether ADRA obtains a new Matching Grant from AID/PVC.

While ADRA seems to be targeting full cost coverage by September 2001, it is not at all clear that interest rates or commissions are set appropriately to achieve such coverage. The interest rate of 3% per month, plus the commission of 2% per cycle (0.5% per month) may not be sufficient to compensate for reduced group size as the Peruvian recession bottoms out. The problem of adjusting interest rates, as has been pointed out by the USAID/Peru Micro-finance Specialist is that bank members will simply shift to other similar village bank groups. Moreover, there appears to be a trend toward lowering these rates in similar programs in Peru.

Although much more needs to be learned about who these women are, they are clearly entrepreneurial and will react to price signals quite rationally. If another organization operating village banks in the same community shifts its interest rates up or down, it will affect membership in ADRA's groups. If ADRA determines it should raise rates to 4% per month, equal to FINCA/Peru or PRISMA in other areas, it may find itself *ceteris paribus* with significant loss of membership.

The USAID Micro-finance Specialist also challenged the idea that village bank members are among the poorest of low-income women, often stated to be from the "bottom 20%" of the population. These women are obviously not randomly drawn to village bank programs, or there would be no problem of group size or competition for members. Peri-urban communities around metropolitan Lima can number in the tens of thousands of families, most of which contain an adult woman entrepreneur. From an actuarial point of view, there should be no dearth of potential VB members.

Yet, to the contrary, there appears to be a relatively limited number of women willing and able to maintain the discipline necessary to function as village bank members. This is why competition for good members can become acute between competing village banking organizations. It is also why village banks have difficulty retaining initial membership. A high percentage of members do not have the business or personal skills necessary to function consistently over time within the necessary constraints of a sustainable VB program. The members know this and are very cautious in introducing new members, unless they know them and trust them implicitly.

All of these considerations affect the drive toward the scale necessary to achieve and maintain operational sustainability. While projections do exist for greater than full cost coverage by 2005 (108%), these include three new program areas, but it is also important to develop projections for those areas that already exist. Only by assuring the sustainability of existing project zones can ADRA be sure it has the right level of interest rates and other charges for its groups.

ADRA/Peru now revises its financial projections on a yearly basis to ensure their practicality. As recently as December 1999, program projections were revised to take into consideration the

current economic situation of the country and the regions in which the VB program operates. Projections for each branch will be developed in the second quarter of 2000, as part of the decentralization of VB branch operations.

Another issue hindering the march toward sustainability is the 18% sales tax that ADRA will soon begin paying to the Peruvian government, if it does not convert itself into an EDPYME (independent small and medium enterprise development entity). ADRA/Peru has managed to protect itself from this tax until now, but its dispensation has run out. It is estimated that the payment of this tax may reduce its current level of operational sustainability by as much as 10 percentage points, thus putting the Peru program well behind schedule in attainment of operational sustainability.

It is too soon to know to what degree payment of this tax will affect current or future operational self-sufficiency. It clearly raises a challenge to ADRA/Peru management, and they will surely take steps to mitigate the problem once its exact impact is known. It should be possible, however, to calculate this impact at present.

Financial Sustainability

On the other hand, the problem of achieving financial sustainability by providing portfolio protection against inflation and local currency devaluation relative to the original loan fund (in US dollars) has been met for the time being by extending dollar loans to village banks, which must be paid back in dollars or at the exchange rate of the day. This effectively shifts the burden of devaluation protection to the VB borrowers, protecting the loan fund.

Of course, even the US currency is devaluing slowly relative to overall price levels, but this is minor compared to what has happened in the past in Peru. Current inflation in Peru is officially set at 4%, a level not far above that in the United States. Even at 3-4% inflation, however, the real value of a loan fund can halve in about 20 years.

As has been pointed out by ADRA, the use of dollars does not exempt ADRA from achieving a level of sustainability that protects loan fund real (original) value. According to the Microfin Projection (11/30/99) financial sustainability is expected to be 66% at the end of FY 2000, indicating a rate of fund depreciation of 5% during the current fiscal year. This is based on a level of operational sustainability estimated at 71% during the same year, which seems unlikely to be achieved on schedule.

Phase-over Plan

The DIP section on sustainability also lays out basic ideas concerning a future phase-over from ADRA to autonomous entities, beginning with the creation of a largely independent economic development program in ADRA/Peru. While the uniqueness of this program has been recognized, the economic development group does not appear to be in any respect outside normal operating structures and procedures of the country office. The Economic Development unit is one of seven sectoral “portfolios” under the authority of the Director of Operations in

Lima. The other sectoral offices are: primary health; agribusiness; infrastructure; basic education; disaster prevention and response; and special projects. The head of the Economic Development division has the same status—program administrator—as the major sector divisions, while basic education, disasters, and special projects are headed by coordinators.

The Economic Development unit does not depart organizationally from other sectoral structures outside of Lima, since its regional operations in Cuzco are under the authority of the regional director and share the same office complex as the other sectoral divisions operating projects there. While the DIP refers to the need for "a different organizational structure in which to house" a variety of philosophical, methodological, management, and leadership differences, this structure does not yet significantly depart from those already in existence. The exception to this statement is that the ED unit is the only sectoral office with its own financial officer.

The Peruvian EDPYME

As mentioned earlier, one of the MG IV objectives that remains to be accomplished is the creation of the independent Peruvian financial entity. The most obvious of these possible entities is known as an EDPYME (Entidad de Desarrollo para la Pequena y Micro Empresa). This is a uniquely Peruvian institution created by the government in order to bring order and organization to the proliferation of micro-enterprise programs on its territory. Probably the most striking consequence of not reorganizing one's program under this structure is that the micro-credit program is required to pay the 18% national sales tax (IGV). Until now ADRA/Peru has been dispensed from paying this tax, but it appears they will begin to do so in March 2000.

As ADRA points out, elimination of the sales tax is not the main point to be considered in creating an EDPYME. Rather, it is the institutional sustainability of the financial model that ADRA is building that is most important in the long run. However, the magnitude of this tax bears careful attention for its effect on the "bottom line."

The MG IV Detailed Implementation Plan (March, 1997) is quite explicit about the usefulness of being an EDPYME. It states:

"It is the intent of ADRA/Peru when appropriate to become an EDPYME organization. There are numerous advantages and disadvantages under its current law, such as taxation, reporting, non-NGO "friendly", etc.... This is therefore a process, which is currently under study by ADRA. An EDPYME is a legal type of organization established under the Ministry of Finance for Micro-Lending Institutions. This form of organization has been specifically established by the Peruvian Government to give an official "vehicle" in which the "non-formal" lending institutions may operate."

Later in the DIP it becomes obvious that ADRA/Peru reserves the right to complete its study, before committing itself to EDPYME status. The objective of establishing a "separate entity" is maintained, but it is stated that "the complete phase-over from ADRA to the new entity will not

happen until ADRA has assisted in bringing the entity to full administrative and financial self-sufficiency.”

Although ADRA/Peru’s 1998 application to constitute an EDPYME was approved by the Superintendencia de Bancos y Seguros in late 1999, ADRA is conducting a further national and regional assessment to identify other administrative structures that might be adopted, without sacrificing its capacity to work toward the creation of an EDPYME. According to law, ADRA/Peru has up to two years to legally constitute the EDPYME, allowing the new institution time to develop or adapt its systems to the requirements of the new structure.

The other independent financial entity to be created in association with MG IV was projected for ADRA Central Office. This has been discussed in some detail elsewhere in the report.

Village Bank Graduation

Under Phase-over Plan, the DIP refers to a process by which the village banks will be turned over to the control of their members after nine banking cycles (3 years), assuming the banks have become sufficiently self-reliant and financially self-sufficient through savings accumulation. This statement, however, did not imply bank “graduation”, a policy that ADRA maintains was never considered. Abandonment of such a model, a key part of the original VB model, is in line with village bank industry experience, since bank members rarely, if ever, seek to graduate from the lending program.

Although it is unclear how self-reliant VB members will become over time, the DIP goes on to say: “However, ADRA intends to continue working with the Village Banks even after the initial nine cycles in developing new financial products, facilitate business training, and technical assistance as needed and facilitate the further linking of banks and/or clients to larger economic entities, including professional and industry associations.”

In a meeting during this evaluation with representatives from the USAID/Peru Mission, the subject of client graduation was discussed in-depth. It was clear during the discussion that some were of the opinion that micro-finance programs should function as revolving funds, whereby seed capital and technical assistance are provided to launch viable village banks. Once self-reliance has been achieved in these banks, the lending institution should withdraw and move on to serve other groups of clients, thus assuring that the original fund is available to an ever-increasing number of clients. The Mission’s micro-finance specialist pointed out that micro-finance programs now implement strategies that help them to retain good clients by offering them new financial products as they evolve as entrepreneurs. It is the retention of these creditworthy clients that is particularly valuable in achieving operational self-sufficiency as the program expands to incorporate an increasingly larger pool of VB clients.

The profits from older, creditworthy clients and banks can therefore subsidize fledgling banks, while maintaining an overall level of sustainability. Were graduation to be the policy, the lending institution would continually lose its best clients as it moves forward to create new

groups. Not only does this place older groups at risk of slow decapitalization, but it also constrains the operational sustainability of the financial institution

The reasons for lack of graduation, common to village banking programs, are both social and financial. ADRA believes they are primarily financial. That is why micro-finance programs have gone beyond graduation of clients to evolution of clients, and the development of new financial products to meet the needs of clients as they evolve.

On the other hand, group members in general do not wish to lose their access to outside capital, do not feel confident of going it alone after only a few years, and enjoy the empowerment and sense of importance they receive from the sponsoring NGO. This has been observed in numerous evaluations of similar programs. Accompanying these reasons is the instability of membership and the precarious nature of client enterprises, so that members generally see going it alone after three or more years as a very risky move.

What are the new products and services envisaged for mature village banks in the ADRA program? While business training and technical assistance is being offered through partnerships with local universities, it does not distinguish between lengths of village bank operation. There is little sign of new financial products or linkages forged between banks and professional and industry associations. Moreover, it does not appear that banks in the ninth cycle differ significantly in organization or functioning from banks much earlier in their growth.

While time did not permit interviews with many village bank members, it was obvious that the clients were satisfied with loan conditions and size, in spite of the fact that some women had to sit out some loan cycles (passive members). Loan size had decreased because of current economic conditions, not because of other problems, as far as could be observed. The four-month cycle appeared to suit clients in general, but in Cuzco they had obtained monthly repayment terms, because of the difficulty of generating sufficient cash flow biweekly. This may reflect current economic circumstances, fewer economic opportunities in Cuzco in general, or the fact that the Lima clients are more educated and sophisticated than their regional counterparts.

As in other micro-finance programs, the next step beyond village banking for ADRA will require study. It is obvious that some form of individual lending to the best clients is warranted. It is also expected that these women remain members of their village bank to qualify for such lending, and this is in line with industry experience.

On the other hand, as ADRA points out, it would not be wise for the relatively young ADRA/Peru program to venture into the diversification of products, before the majority of clients are ready to do so, and while ADRA is still in the process of developing institutional capacity to delivery financial services.

Nevertheless, the next generation of products should be studied now. The first step would be to review industry experience in this domain, since there are now many programs older than ADRA's in the Latin American context. World Relief/Honduras, for example, was well along in 1996 in the extension of long-term individual loans to its best clients, while requiring them to

remain borrowers in their banks. On the other hand, WRH did not permit the existence of an internal account in their banks, while ADRA sees the use of this fund as a flexible device by which women can carry out short-term borrowing for largely non-business purposes.

Clearly, individual loans of various terms, from six months to two years, may be designed in the future in ADRA programs, although they must be handed out very carefully and only to the best credit risks. Collateral should be required. Linkage of clients to formal financial institutions, as proposed in the DIP, may also be an option, but these activities would no longer be part of the ADRA program.

An observation that is common to village-banking programs is that women never partner among themselves for economic activities, once they have received their bank or individual loans. It would be quite innovative to propose lending to two or three women for the same economic enterprise. Perhaps an entire solidarity group could begin to organize itself in this way. The difference between the group as a “company” and as a collection of entrepreneurs is that women would begin to specialize. In future, lending could be made not only to solidarity groups, but also to fledgling companies, or partnerships, in which there would be differentiation of function among members. The evaluator is unaware if this has been attempted successfully in other programs in Latin America.

Cost Recovery

Cost recovery is explicitly discussed in the DIP and has obviously been a factor in setting the interest rate and loan cycle commission of 2% of loan value. This commission was created to cover the cost of initial training and continued technical assistance from ADRA credit officers (promoters).

The fact that the program is only 44.4% self-sufficient after three years indicates that considerably more loan volume will be necessary to cover operational costs. As bank groups mature, their loans become larger and safer, generating the volume the sponsoring organization requires. As has been seen, this is an important reason why village-banking NGOs are reluctant to graduate their more experienced banks.

Have the commission and interest rate been set high enough to ensure cost recovery? The 3% per month rate (36% per annum), plus the 2% per cycle (equal to 0.5% month, or 6% per annum) would appear to be appropriate in a Peruvian environment of 4% official inflation per year (probably somewhat higher in reality). At least one village bank --FINCA--adopted 4% per month more than two years ago, while CARITAS continues to use 2% monthly. PRISMA is also at 4% per month.

Although the MG IV Proposal states that ADRA intended to use “a 48% flat nominal annual interest rate”, during the evaluation ADRA/Peru stated that their interest rate of 3% had been set based on the results of an assessment of the national and regional competitive environment, in addition to operational costs and its own credit policies and procedures.

Current and Projected Operational Sustainability

The projection of operational sustainability for ADRA/Peru over the next four years involves the addition of two new program areas, each of which is requested under separate proposals for program expansion. ADRA/Peru is seeking to diversify its funding base for expansion of financial services through other network Support Offices, such as ADRA/Spain and ADRA/Germany, to whom proposals for funding have been submitted.

A target has been established for each credit officer under the expanded program to have a maximum of **350 and a minimum of 285 bank members under her management**. Moreover, each credit officer is expected to manage of **loan volume of \$40,000**. Under the four-year project the total number of **credit officers will grow to 32 from the current 8** and the total number of **clients will be 11,000 – more than a five-fold increase over the current 2,014**. This implies an average number of members per credit officer of 344, just under the proposed maximal limit. This is in line with the norm for mature Peruvian micro-finance institutions, with from 300 to 450 clients per promoter.

Since current policy limits the number of banks per credit officer to 12, this means that ADRA/Peru expects the **total number of clients per bank to be about 29**. Although this figure is up somewhat from the current average of 22, it is not unrealistic to assume that it may be attained in future, particularly if the Peruvian economic recession dissipates somewhat as expected. The only other option is to increase the number of bank groups per credit officer, probably necessary in the Cuzco region. Experience has taught ADRA/Peru, however, that 12 banks is about optimal, and this figure was reduced from that in the DIP (up to 16 banks per credit officer).

ADRA discussions on sustainability in Peru focus on the number of members served by promoters, with much less attention to loan volume and number of banks. These indicators should not be ignored, however. Obviously, it is important to move the loan volume as high as is safely possible, and to reduce time constraints for promoters by promoting larger groups rather than a larger number of smaller ones. However, pushing village bank members to increase membership may be counter-productive, if it introduces members who are not solid credit risks. Bank membership reduces considerably after their initial creation, largely as a result of the weeding out of irresponsible or credit unworthy members.

The current level of operational sustainability has been calculated by ADRA/Peru at 44.4%, down from last October's 56.5% for the overall program, itself a blend of about 58% for Lima and 54% for Cuzco. Without the current intensification of the Peruvian recession over the last 6 months or so, ADRA/Peru believes it would have achieved a level of sustainability of about 80%. As has been mentioned before, the number of groups dropped from 110 in mid-1999 to 92 by year's end. As ADRA points out, a better measure of the current situation is the drop in number of clients rather than number of banks, since this translated into 9% decrease in client outreach.

C. Status of Strategic Partnerships

Section E.2 of the DIP states that “ADRA is creating a dynamic process of becoming a learning organization capable of influencing and adapting to a continually changing micro-credit environment.” Both formal and informal organizational linkages are indicated as tools by which ADRA is to achieve its objective of adaptive organizational change.

Collaboration and Coordination

ADRA has indeed been active in a variety of informal and formal organizational linkages, but most of these fall short of true partnership, if partnership is defined as a formal association to achieve specific, common objectives. In most cases, ADRA collaborates informally with other peer and micro-enterprise practitioner organizations, such as the SEEP Network in the United States and COPEME, FONCODES, IFOCC, CTAR, SIPAN, FINCA, CARITAS, and ARARIWA in Peru. Involvement with the SEEP Network led to a grant of \$50,000 from Citibank to develop the *Guide to Business Planning for Micro-enterprise Programs*.

COPEME, FONCODES, IFOCC, and SIPAN are all consortia or information networks of micro-credit or small business practitioners in Peru, and it is clear that ADRA/Peru has been involved in a number of information exchanges, collaborative training events, and numerous conversations. CTAR/Cuzco (Consejo Transitorio de Administracion Regional—Region Cuzco) is the only governmental organization of this group of collaborating organizations, and it is indispensable to be involved in its numerous events and training sessions related to small business investment and promotion.

FINCA, CARITAS, and ARARIWA are other micro-credit organizations, sometimes practicing village banking in the same areas as ADRA. Most collaboration remains informal, its most important aspect being exchanges of lists of village bank members to avoid duplication. In the case of FINCA, however, ADRA established a formal linkage to be involved in the study of impact using the AIMS methodology. Results of this recent study are not yet available from FINCA.

In addition to these linkages the Economic Development unit of ADRA/Peru also made at least two study visits to practitioner organizations in Bolivia, Nicaragua, and Honduras.

Partnerships

ADRA Central Office considers its partnership with ADRA/Peru under MG IV to have established the basis for formalizing partnership agreements with other ADRA implementing entities. The partnership agreement is a legal document that defines all rights and obligations of both parties in the implementation of this model program.

ADRA/Peru has also entered into a legal contract with the Banco Credito del Peru (BCP) to provide the banking services it requires to carry out and build an effective micro-credit program. The complex system of village bank and ADRA accounts in the BCP make the village banking program possible in Lima and in Cuzco, as well as extendable to new regions where the BCP has branches. ADRA/Peru examines all village bank account balances and activity on a monthly basis, but it can also request financial information at any time. ADRA has negotiated somewhat reduced fees for these services. While collaboration between an NGO and a commercial bank is not what is normally considered a strategic partnership, the unique nature of village banking requires such a relationship, if it is to succeed and reach large scale.

Two other partnerships characterize ADRA/Peru's village banking program, both of which are with university departments. Although neither relationship has yet established a formal agreement, it appears that discussions continue to this effect.

The first of these strategic partnerships is between ADRA/Peru and the College of Administrative Sciences and Tourism of the Universidad Nacional de San Antonio Abad del Cusco (UNSAAC). Students in this college are required to undertake a practicum before graduation, and it is this semester-long practicum that ADRA has been able to orient toward supplying technical assistance to its village bank groups in Cuzco. Students provide business advisory services to members of bank groups, especially on a one-to-one basis. Their assistance focuses on finance and marketing, although it can range as far as advising micro-entrepreneurs where to locate their stands and present their wares.

The program has been under way now for three semesters, with about 30 students participating each semester. These 90 students have had the privilege of becoming acquainted with a level of business activity that they may never have noticed or thought important, while women in the groups seem very happy with the free advice they have been receiving. Students receive training in micro-credit from ADRA/Peru staff before beginning the practicum and prepare a report on their work at its end. The ADRA credit officers, in conjunction with faculty, give them a grade on their performance.

The other university partnership is with the Adventist university in Peru, the Universidad Peruana Union (UPU). Located in Nana, near Lima, the UPU College of Accounting and Administrative Sciences also provides about 30-40 students each semester to act as business advisors to village banking groups located nearby. The program got under way in mid-1999 and students devote two hours each week to assisting bank members in accounting and management. Each student is currently advising from 4-5 bank members, but this ratio will be brought down to from 2 to 3 micro-entrepreneurs.

The program is now into its second semester of activity. Although a number of discussions have been held between the UPU and ADRA/Peru, a formal agreement has not yet been signed. This is also true for the partnership in Cuzco.

A similar agreement between one or both of the two major Peruvian universities located near the other area of ADRA intervention in the outskirts of Lima (Los Olivos) would be necessary to

extend similar business advisory services to that area. Some 100 students would be needed to attend to all village bank members in Los Olivos. It does not appear that discussions have yet begun with these universities (San Marcos and Catolica).

A point of interest is that virtually all members of the Economic Development group in ADRA/Peru, including 7 of its 8 promoters, have graduated from the Universidad Peruana Union. Their background is generally similar to those students undertaking the practicum—administrative sciences—although some have an economics or education background. It appears that ADRA/Peru continues to recruit from among the graduates of UPU, especially among those students who are willing to volunteer as credit officers for an apprenticeship following their initial exposure to village banking during the practicum.

Although village banking is a uniquely financial activity, it remains highly social in many of its aspects. To ignore its social dimension by over-emphasizing its financial nature would lead to disaster. Until now promoters have not been recruited with a social work background, but this will be rectified in the near future, according to ADRA. ADRA/Peru's experience with the social dimension of building viable village banks has led them to a greater appreciation of the complexities of this program. A case in point is how to understand and resolve the high level of membership turnover in such bank groups, although this is not a problem unique to ADRA's program.

Appraisal of Partnership Activity

It is evident that collaboration with peer and practitioner organizations and networks, of which there are many in Peru, is necessary if ADRA/Peru is to build a viable and competitive village-banking program. Such collaboration and information sharing is typical of village-banking programs, probably due to the uniquely successful nature of its approach.

The use of the words "competitive approach" above is well-advised, since ADRA/Peru believes that high membership turnover is largely due to competition with other village bank programs recently implemented in the same slum areas. The logic of building village bank programs to the level of scale necessary for operational sustainability and the appeal of making programs fund themselves means that the number of such activities will continue to grow and that the population of poor female entrepreneurs will be increasingly solicited.

The number and demand for such village bank services continue to remain an unknown, since in theory there should be a huge pool of such petty traders in slum areas from which to draw. The fact that ADRA already feels competitive pressure in its zones of activity may mean that the actual population of women capable and willing to join village banks may be much smaller than assumed. ADRA and other VB NGOs should attempt to learn more about the social and personal characteristics of its bank members. There is serious doubt that ADRA is drawing from the poorest 20% of the poor, as was originally intended. Nor may this be the population most likely to succeed at entrepreneurial endeavors.

Other than the very deliberate plan to build the capacity of ADRA/Peru, the Matching Grant did not anticipate many relationships with other partners. It is to ADRA/Peru's credit that it has developed its university relationships, trained students in working with village banks, and continued to remain creative in adapting to the vicissitudes of building a viable model in Peru.

The impact of partnership is evident and intentional in the case of ADRA/CO and ADRA/Peru. ADRA/CO has created an Economic Development unit in ADRA/Peru largely from scratch over the last three years. The success of this partnership is evident in the very success of the micro-enterprise model launched in Peru. That there is always room for improvement in the details of the program is noted in other sections of this report. Nevertheless, the fundamental objective of the joint efforts of ADRA/CO and ADRA/Peru has been achieved. Learning has occurred in both directions, not just within the country office. ADRA/CO has now had the experience of setting up a program where none existed before.

Change in the capacity of the university partners is more difficult to assess, although it is evident that both the university departments, as well as the students themselves, are very happy with the practicum, certainly a unique experience for most university students in the administrative sciences. In some cases, students from this practicum are actually taken into the program as credit officers, as mentioned elsewhere.

There is no formal mandate beyond the ADRA/CO and ADRA/Peru partnership to build the capacity of one or both partners, although it is expected that the university departments involved will continue to structure such a practicum into their requirements for graduation. Nor is there any formal agenda to train or technically assist collaborating micro-finance institutions. However, ADRA/Peru clearly sees itself as a "learning organization", as was repeatedly stressed in the country office during the evaluation.

All in all, lessons learned in partnership, collaboration, and information-sharing activities appear to be positive. No negative experiences were evident during the evaluation. In this domain, ADRA appears to have gained the respect and cooperation of other organizations with whom it has collaborated over the past three years.

II. PROGRAM MANAGEMENT

A. Changes in Organizational Management Capacity

1. Strategic Approach and Program Planning

The purpose of a PVC Matching Grant is to bring about sustainable institutional change, at the same time that it seeks to reinforce the capacity of a PVO to deliver services effectively and inexpensively. There have been two types of institutional changes under Matching Grant IV, those occurring in ADRA/CO and those, more service-oriented, occurring in ADRA/Peru. Progress toward achieving the specific program objectives has been discussed earlier, including many of the organizational changes to be wrought in the country office. Progress in the process of developing and institutionalizing strategic and business planning within ADRA/CO and ADRA/Peru are discussed below.

Strategic Planning for Economic Development

During the second and third quarters of Year 1 (January – June, 1997), ADRA Central Office developed its strategic plan for economic development. A draft document was attached to the first annual report, but the final version appears unchanged. The strategic plan was to serve as the basis for a business plan for ADRA/CO, which apparently has not yet been developed.

On the other hand, both a strategic plan and a business plan were developed for ADRA/Peru during Year 1, although only the business plan is annexed to the first annual report. In 1997, ADRA/Peru had contracted a local consultant to do a feasibility study required by the Superintendencia de Bancos y Seguros, as part of the application to constitute an EDPYME. In 1998, a consultant from the banking sector was hired to assist ADRA/Peru in the development of a business plan, while contributing to defining a framework for business planning for the network. The outcome of this process was a business plan for the constitution of an EDPYME, the development of a framework and tools, and an institutional business-planning guide that is now being disseminated throughout the network. In 1999, ADRA/Peru, using the tools developed as part of this guide, conducted an institutional review and an assessment of the strategic environment, resulting in a strategic and operational plan for the next 5 years. The financing strategy defined in the operational plan includes the submission of a proposal for funding to USAID/PVC.

The ADRA/CO Strategic Plan (1997) begins with a statement of belief, a mission statement, agency operating principles, operating principles for economic development, and a purpose statement for economic development. The document then moves to a discussion of ADRA's economic development portfolio, preferred futures, and action plans in logframe form for attaining these futures. The 13 preferred futures are all objectives under the strategic plan, not alternative accomplishments or action scenarios.

Although rather general, the document does a creditable job of stating ADRA values, target groups (micro/small entrepreneurs from no assets up to \$50,000 and 50 employees), and general

objectives (preferred futures). Since the document was developed early on in the process of building ADRA's strategy, it has little to say specifically about lending strategies or models. For example, when referring to loan delivery methods and approaches, the strategic plan lists individual lending to individuals and group lending to solidarity groups, credit associations, cooperatives, village banks, family associations, communities, and professional/business groups. It does not get more specific than this.

The 13 preferred futures for **economic development** can be succinctly stated as follows:

- (1) Each implementing country will develop a unique strategic plan leading to a business plan.
- (2) ADRA's governance structure supports and promotes economic development services.
- (3) ADRA adopts a business-oriented management style with emphasis on results and performance.
- (4) ADRA recruits only qualified and experienced professionals within the micro-finance field.
- (5) ADRA establishes a system for human resource development leading to professional growth.
- (6) ADRA standardizes operational systems in financial management, portfolio management, information processing, policies and procedures, and monitoring and evaluation.
- (7) ADRA develops a standardized approach to assessing the feasibility and viability of launching economic development activities in a given country.
- (8) The purpose of systems and standards development is to achieve self-reliance and technical viability in service delivery.
- (9) ADRA develops expertise and capacity in methodologies that can be adapted to country realities and settings.
- (10) ADRA diversifies funding sources so that no single donor contributes more than 25% of loan capital needs.
- (11) ADRA develops an independent consulting agency providing a pool of qualified consultants to micro-finance programs and institutions on a fee-for-service basis.
- (12) ADRA develops an independent Economic Development Fund that provides management oversight and strategic control over a network of micro-finance entities.
- (13) ADRA becomes an active player in the international economic development community.

In its section on Action Plans, the preferred futures are converted into action plans, outputs, and responsibilities. While still somewhat general, the contents of this logframe do provide a

structure for proceeding toward an overall vision of technical competence and economic self-sufficiency. It will require revision soon to render it considerably more specific in terms of its various desiderata. It may also need to be revised in regard to its thinking about the independent pool of experts and the Economic Development Fund. Neither of these appears to have progressed very far under the current Matching Grant. Perhaps these are intended for a considerably more distant future than the others.

The ADRA/Peru Business Plan

Appended to the first annual report, the business plan presents considerable background material, largely intended to accompany ADRA/Peru's application to the Peruvian government to establish a licensed micro-credit institution (EDPYME). Thus, following an executive summary, the document covers institutional background, mission and vision, comparative advantages, and current status and situation of the organization (market, products and methodology, human resources, information system, organizational linkages, sources of finance, performance).

Following this presentation of background and current status, the business plan moves into its growth plan, divided into market goals, products and methodology, institutional development, organizational development, projections, priority projects, and resource requirements. The future EDPYME is discussed at length under priority projects (the only project so discussed.).

The business plan, although intended to accompany its application to the Peruvian government, is a rather succinct document and appears an appropriate start toward the type of business orientation and thinking that ADRA is seeking in Peru and in the Central Office.

The ADRA/Peru Strategic Plan

The recent ADRA/Peru strategic plan (1999) has been developed as a base from which funding can be solicited, including, as already noted, the application for MG 5 to USAID/PVC. It consists primarily of sections on institutional review and analysis, review of the strategic environment, and objectives and activities. The institutional review and analysis section is divided into sub-sections on: consolidation of the network; governance, leadership, management, and structure; external relations; management of human resources; service delivery; administration and systems; sources of financing and financial resource management. Each sub-section consists of four bulleted sections, one each on: strengths, weaknesses, findings, and implications.

The section on objectives and activities covers sub-sections on: consolidation of the network; governance, leadership, management, and structure; external relations; development of institutional capacity; and products and markets. This section is in logframe form, with indication of time periods, responsibilities, resources, and budget.

Although rather brief, long on internal analysis, and somewhat short on the specifics of next steps, the ADRA Strategic Plan for the upcoming five years contains some very good analysis and thinking. The lack of specificity in the section on objectives and activities, where statements

are made about what to do next, is filled in by attaching annual operational plans detailing the “how”, “who” and “when” of all activities.

2. Wider Organizational Influence of MG IV

The following discussion focuses on the wider changes occurring in ADRA as a result of MG IV. These changes are more strategic in nature, involving the impact of the grant on the larger organization and network, of which ADRA/CO is the pivot.

Influence of MG IV within ADRA Central Office

Because of the presence of MG IV, the general concept of cost recovery is being given wider attention within the other programs of ADRA/CO, although it is not clear how far this has been taken in health or agriculture, for example. Other ADRA donor countries have begun to introduce their own micro-enterprise development (MED) projects, and it is assumed that this will influence network thinking in general toward more economically and financially sustainable programming.

Another aspect of the rigor involved in creating a viable village banking program is that a set of standards is required that should be adhered to throughout the network. There is great need within the ADRA network to understand that such standards are necessary, let alone what such a set of standards should look like. Agreement on basic standards is being promoted and sought by ADRA/CO. Much of this is carried out in technical assistance activities with ADRA donor (support) offices. Partnership modalities are also in need of development, for which the agreement between ADRA/CO and ADRA/Peru appears to be an important model.

Within the next two years ADRA/CO will attempt to launch an economic development strategy for the network, as well as helping to introduce more solid concepts of strategic and business planning. Most ADRA donor (support) offices and implementing countries do not have the technical expertise and resources to develop such tools. This is why ADRA/CO can help by drawing on its own experience in its partnership with ADRA/Peru.

The regional economic development training program under APLI will also assist in the development of more rigorous, business-oriented thinking, among the personnel of ADRA country offices. The training session now includes a module on business planning, as well as on economic development theory and village banking practice. This is linked to a Master's degree program offered by Andrews University.

According to the chief of the Program Management Bureau (ADRA/CO), the impact of MG IV on the wider organization has been:

(1) A strengthened trend toward "systems" thinking and development, including more rigor and technical standards development. This has been particularly apparent in discussions concerning the creation of permanent financial institutions within ADRA/CO and in ADRA/Peru.

(2) The influence of MED programming in ADRA/CO on other country programs, particularly in their development of micro-credit programs. MG III took a “generalist” approach, while MG IV has focused on the specific needs of village banking, with technical assistance provided to ensure rigor. The idea is to develop new models that reduce transaction costs and that can be passed on to the field. These models should be reliable, consistent, "documentable", and combined with oversight. Sustainability is to be sought by cutting costs through systems development.

(3) The use of a business approach in the ED portfolio has affected the thinking of the whole institution. There has been a certain ripple effect from MG IV, leading to the idea of a document management system, among other ideas.

(4) The origin of the MG IV program lay in the unsuccessful experimentation with small enterprise development under Title II in 1987-94 in Peru and Bolivia. For 4-5 years ADRA experimented with credit funds, but closed the program out in Peru, in favor of transferring the fund to support the village-banking program.

(5) The ADRA donor offices were suspicious of village banking approach at first and saw it as a USAID approach (concept). A long dialogue took place between ADRA/CO and ADRA donor country offices (22 in number). There was a desire for a minimum set of standards, leading to a long discussion of what should constitute these standards. Ultimately, the current model in Peru has had major impact on the rest of the network, and several ADRA donor organizations have begun programs of their own. ADRA donors now see the model as institutionalized, ready for replication, with all necessary systems in place. This is the major accomplishment of the last three years.

Influence of MG IV within ADRA/Peru

Discussions with the leadership of ADRA/Peru, including the executive director, director of operations, director of planning and quality, and various heads of sectoral programs (health, infrastructure, agribusiness, education, disaster response) revealed the seriousness with which these managers view the successful implantation of the Economic Development Portfolio (unit). Perhaps its greatest impact on the other sectors is seen to be the concept and practice of sustainability. Previously projects attempted to leave in place a structure to be sustained by beneficiaries, while the economic development office is attempting to generate a sustainable service delivery structure. In this case, sustainability refers to both institutional and financial self-sufficiency. This is not, of course, contradictory to the concept of beneficiary sustainability.

For the leadership of ADRA, this approach amounts to something of a paradigm shift. How this approach can be adapted to other sectors is not yet clear, but it is obvious sector program heads wish to generate something similar in their areas. Some examples of changes in orientation in other sectors were provided: introduction of the concept of empowering women's groups in the infant nutrition project; and the concept that every service contains a cost and implied payment in the agribusiness project.

Other examples given that reflect the current interest in financial sustainability are: a revolving loan fund for disaster victims and the creation of economic activities within women's health groups, possibly leading to their future incorporation into village banks in the ED program. Such project complementarity is seen to have increased since the advent of the ED Office, with other sectors attempting to adopt the rigor and standards of micro-credit activities. The ideal of being able to stretch out benefit streams by recapturing some or all of the costs of service delivery has become very popular in ADRA/Peru.

Some of the leadership in ADRA/Peru appear to see projects in terms of those that can generate resources and those that can only consume. There is thus the possibility of cross-subsidization of project costs, those producing profits able to cover some of the unrecoverable costs of purely social projects. This, however, may not be the best way to view projects, since the ideal of each project should be to cover its own service delivery costs. It might be better to identify cost centers within projects, with some activities contributing to defraying others. If economic development activities generate sufficient profits some day to invest in other sectors, so much the better, but this appears to be ambitious thinking at present.

Governance

Each level of ADRA has its own Board of Directors. ADRA/CO in Maryland serves the ADRA network of country offices, 22 of which are donor countries. Central Office responds to an International Board of Directors that meets at least twice per year.

ADRA/Peru has its own Board of Directors to whom the Peru country office director reports. Although ADRA donor countries and Central Office may implement programs in other countries, they must work through the local country offices and their boards. This is why a partnership between ADRA/CO and ADRA/Peru to develop an economic development program requires written agreements between both entities.

The Board of Directors of ADRA/Peru at first viewed the new ED program with some hesitation, since it felt its mission was distinctly opposed to becoming a bank. It required some explanation to convince the Board that village banking and the required financial supporting structure was not exploitative of the poor. Since the objective of the program has always been to set up an independent and sustainable financial institution, the Board had to be convinced that the model provided desirable services, compensating for the principle of cost recovery it contained. As might be expected, charging a market rate of interest on village bank loans was a subject of considerable debate.

In the end, the Board has become fully supportive of the new model. Interestingly, it was the ADRA/Peru members of the Board that needed most convincing. Although the ED program requires considerably more effort and resources than traditional programs, it is seen to have great future potential. Although still small, the ED unit and program is seen ready for take-off, although there still remains some caution about how and when to move the program into an independent entity. Of course, even independent of ADRA/Peru, the new institution would retain its Adventist identity and orientation.

B. Monitoring and Evaluation

The major tools employed by ADRA to track progress of its model village banking program are the ADRA Banking tracking system and the financial reports provided to ADRA Central Office through the financial monitoring system. In particular, the ADRA Banking system will supply key indicators of progress for the village banks as a whole, that is all the client, credit portfolio, portfolio quality, internal savings, operational efficiency, sustainability, and other indicators needed to track all important aspects of the credit program itself. There are in all 75 credit portfolio indicators that constitute the ADRA Banking tracking system. Details of this system have been discussed elsewhere.

With regard to more programmatic measures of program progress, ADRA has tended to produce these in the form of annual reports to USAID. However, the last two such reports are light in detail and should be more elaborate. There have been many developments in the Peruvian program that should be presented and discussed in that format.

Since a baseline survey was not conducted, as announced in the DIP, it is difficult to gauge client impact. Nevertheless, ADRA collaborated in a recent FINCA evaluation, whose results are not yet available. A further impact study is planned by ADRA in the near future.

There has been some transfer of village banking skills informally to the university students involved in providing business advisory services to village bank members. In general, the major transfer of skills between partners has been from ADRA/CO to ADRA/Peru. This was the intended purpose of building the capacity of the Central Office in the first place under MG IV. This transfer has been extensive and successful.

C. Other Management Issues

Financial Management

Adequate financial monitoring systems have been put in place to monitor the overall village banking program and the financial data of MG IV. The FMS monitors the Matching Grant, while ADRA Banking tracks the details of the village-banking portfolio. Both sets of data are compiled from regional offices in Lima and are expedited to ADRA/CO. The current ADRA Banking system, created in September 1999, is an upgrade of the previous FoxPro version, developed in 1997. It is discussed in some detail elsewhere in this report.

ADRA/Peru has generated some supplementary monies for use in this program: \$56,000 from the SEEP Network and Citibank for business planning; \$50,000 from Spanish Cooperation. Three proposals have been submitted for program expansion.

The program appears to be reasonably cost effective at this point, since until recently it was on target in terms of its operational sustainability objective. With program expansion, larger scale may assist ADRA to maintain growth in its sustainability rate, although reaching its original estimate of 98% by Year 5 of the current program appears highly unlikely. On the other hand, growing pains may be greater than expected, since Murphy's Law states that problems grow exponentially relative to arithmetic increase in complexity.

Information

Reporting under MG IV is primarily through annual reports, of which three were produced following the Detailed Implementation Plan (March 1997). The DIP and the first annual report seem adequate, but the remaining two reports repeat most of the information of the first report and do little to provide detailed information on the growing village banking portfolio. In spite of the reporting structure required by USAID, there is ample room to discuss issues in depth.

Although reporting more often to USAID/PVC does not seem necessary, more detail in these reports would be desirable, unless such brevity has been specifically requested by USAID. Internal reporting within ADRA consists of monthly financial and narrative reports, in addition to the transfer of databases through ADRA Banking. If brevity was requested in USAID reporting, it should be reconsidered, since there is little sense of project progress following the first annual report. Lessons-learned sections are particularly disappointing in the last two annual reports.

Logistics

Logistical support does not appear to be a problem within ADRA/Peru. The Lima country office is a large building with numerous storage areas. A staff of three manages the logistics for all program activities.

Regional offices also act as clearing houses for inputs to regionally based programs. Obviously, logistical needs are reduced in the economic development program, since the major inputs are human (promoter visits) and financial (bank accounts).

The adequacy and timeliness of ADRA's material inputs under MG IV have raised no apparent problems.

Supervision

Staffing in both ADRA/CO and ADRA/Peru, while relatively spare, appears adequate to the tasks assigned them. Increasing scale in Peru will certainly require the addition of many new credit officers, up to 24 more if current expansion plans materialize. This will probably require additional managerial personnel in Lima and in regional offices.

The skills of credit officers, their local supervisors, regional office directors (Cuzco), and the management staff in the Lima country office all appear adequately skilled and motivated to

monitor and manage the village banking program effectively. Constant supervision and monitoring in village banking is crucial to success, and this appears to be fully grasped by program personnel.

Human Resource Development

Almost all ED program personnel in Peru have graduated from the same Adventist university, (Universidad Peruana Union), in administrative sciences. Salaries appear to be adequate, although possibly slightly low compared to other NGOs in Peru. The common religious, ethical, and educational background of staff is certainly a plus, but this could become a disadvantage, if the program expands faster than the qualified pool of management talent among Adventist graduates. In order to recruit the best-qualified personnel for village banking, ADRA may need to consider some non-Adventists.

How much weight ADRA/Peru attaches to this issue is unclear, but the advantages of sharing the same values, ethics, principles, and educational background are obvious. For this reason, staff turnover appears to be low. ADRA is concerned to develop its staff, moving them between sectors as necessary when priorities shift. Staff development does not extend to partners' staff, except in the very obvious professional relationship between ADRA/Peru and ADRA/CO.

III. OVERALL CONCLUSIONS

1. ADRA has successfully reached the first MG objective of selecting, refining, adapting, and implementing a village-banking program in Peru. The model is typical of these programs, employing the basic design of bank members divided into solidarity groups, generation of mandatory savings, and use of both internal and external accounts.
2. ADRA has developed a management information system to track progress of its loan portfolio and the key indicators of its village bank program. The system, entitled ADRA Banking, is sophisticated and appears capable of handling all necessary functions of managing and tracking an expanding village banking program in Peru and in other countries.
3. Development of the Global Electronic Management System (GEMS) has not occurred under this grant, although elements of its many facets are under development currently in ADRA headquarters. It will, however, require several more years, before GEMS functions as originally proposed.
4. Appropriate operational systems for the effective management of a village-banking program have been developed by ADRA under MG IV. These include basic planning, management, monitoring, and replication tools used both in the Peru country office and ADRA Central Office. Their quality is high.
5. ADRA/Peru had reached its third-year objective of 55% operational sustainability last year ahead of schedule, but this has slipped recently to 44.4% because of a recent economic downturn in Peru. Attainment of 98% operational self-sufficiency in two more years, however, appears unlikely. The need for full financial sustainability is obviated currently by the use of US dollars in lending activities, effectively shifting the burden of inflation coverage to the VB borrowers. Managing a portfolio in dollars may protect against devaluation of the loan fund, but this by no means eliminates the need to strive for eventual financial sustainability of the program.
6. The proposed creation of an independent financial institution to manage the village-banking program in Peru has made little progress since its discussion in the DIP. ADRA/Peru has been reluctant to establish this entity until it can reach a much higher level of operational sustainability. Only by establishing an EDPYME can ADRA/Peru avoid payment of the 18% Peruvian tax on all interest generated by its village banks. Payment of this tax has been deferred until now, but will probably begin in March 2000. It is estimated that this may lower its current sustainability by about 10 percentage points.
7. The proposed independent financial institution to be created in ADRA Central Office has not materialized. Although the idea was approved early on in headquarters, its implementation has not occurred. It is probable that ADRA/CO will not undertake this step until the Peruvian independent institution has been successfully launched.
8. Under MG IV, ADRA has developed training programs at three levels, as originally proposed. Most training has occurred in Peru in the development of the village-banking

program. This has involved training at program launching (20 days), training for new promoters (7 days), and training for village bank boards (3-4 days). Training has also occurred in ADRA Central Office and worldwide within its network of ADRA affiliates, most of which look to ADRA/CO (USA) for technical guidance in the area of economic development and sustainability. Notable among training and model dissemination efforts is the two-week course given to network member staff through the ADRA Professional Leadership Institute in four regions in early 1999. This course involved two segments, one on micro-enterprise finance and development and one on institutional business planning.

9. The village-banking model has had significant impact on all levels of ADRA: Peru country office, ADRA Central Office, and the ADRA network of donor affiliates. It was the intention from the beginning to use this matching grant to reorient ADRA to more sustainable operations in international development. Such a shift has been under way for at least 10 to 12 years now among US PVOs, many of which have used matching grants with AID/PVC to reorient their strategic thinking.

10. ADRA has launched a program of individual loans in Azerbaijan and has advised some of its ADRA donor affiliates in the creation of village-banking programs. The proposal to replicate VB programs in five new countries has been attained, but it does not involve ADRA/CO in direct implementation. ADRA/CO is currently proposing to replicate its Peru partnership model only in Ghana, although it has assisted members of the ADRA network with their own new programs.

11. ADRA has not cultivated many formal partnerships in Peru with other village-banking NGOs, community organizations, or governmental agencies. ADRA/Peru has established a functional partnership with San Antonio Abad University in Cuzco and the Universidad Peruana Union (Adventist) near Lima, so that students finishing their university training can undertake a practicum in small business development. ADRA collaborates with several other VB NGOs in Peru, with local government entities, and is active in the US SEEP network, but these involvements fall short of true partnerships.

12. MG IV has resulted in successful use of USAID monies and has moved the PVC Office toward several of its intermediate results (IRs). It is, however, difficult to quantify such progress. Thus, it is clear that the creation of the ED Office in ADRA/CO has resulted in an improvement of the operational and technical capacity of a US PVO (IR1). A new sectoral emphasis and capacity has been created virtually from none at all. Second, the relationship between USAID and ADRA/CO has clearly been strengthened through this grant, which has been pivotal in extending a village banking capacity to a major US PVO (IR2). Third, there is a considerably strengthened partnership between ADRA/CO and ADRA/Peru, a relationship that required the development of a true partnership, because of the autonomous nature of ADRA country offices (IR3).

13. On the other hand, it does not appear that MG IV grant has resulted in improved mobilization or diversification of funding on the part of ADRA/CO (IR4), although there are signs that its local partner ADRA/Peru may be able to do so, if its current proposals are successful. Raising of US

public awareness and understanding of the importance of global sustainable development does not appear related to this project (IR5).

IV. KEY RECOMMENDATIONS

1. ADRA Central Office and ADRA/Peru have successfully launched a major village-banking program in Peru, which appears at a point where it can be replicated to other zones. A recent economic downturn has reversed bank growth and limited loan size. ADRA should conduct an in-depth assessment of the current situation, generate a strategy to cope with a prolonged or worsening recession in Peru, and calculate the implications of this new strategy for program expansion to new areas in the country.
2. A number of focused studies should be undertaken at this point in Peru, as the program prepares to expand to new areas and greater scale. These should include:
 - a. Socioeconomic profile of the target population (VB clients)
 - b. Impact of the program on client income and the use of this income
 - c. Reasons for the high turnover within village banks
 - d. How to raise the level of sustainability (interest rate and scale)
 - e. Nature of NGO competition for clients
 - f. How to grow the Lima and regional offices in tandem with program expansion.
3. While many of these questions have been investigated at program start-up, ADRA needs to take investigation to new depth. The question of the exact poverty level of clients and the size of the pool from which acceptable clients can be recruited needs further research. This is linked, in turn, to the nature of competition posed by similar micro-finance organizations in the same communities and the reasons for the high turnover of VB members. In-depth interviews with a sample of village bank members would be more useful than a quantitative survey of a large number of clients. This may require recruiting a specialized consultant from outside the program.
4. ADRA/Peru should soon make a decision about what kind of financial entity it wishes to create for its village bank program. If it waits until all indicators are just right, it will lose time in reaching its institutional objective. If further study is needed, then the process by which results from this study will lead to definitive decisions should be outlined now. Improvement and expansion of the micro-finance portfolio can be undertaken as the foundation is laid for institutional autonomy and sustainability. Work toward both objectives can and should be undertaken in tandem.
5. Although recruiting only among the Adventist community has its advantages, it may also limit the pool of qualified candidates for positions in regional and Lima project offices and as credit officers. ADRA should consider recruiting more widely in future and being sure to pay salaries competitive with other Peruvian NGOs implementing village bank programs. This may be particularly necessary in the staffing of the new financial institution it wishes to launch.
6. ADRA Central Office should strengthen its Economic Development Office, which only contains three technical specialists with which to begin the network-wide replication of the

Peruvian model. A doubling of this unit would be warranted, if it is to be active in technical assistance to a number of countries at once. Since other ADRA donor countries wishing to launch village bank activities are increasingly seeking ED services, a plan to charge some fees for services should now be put in place.

7. Once the ED Office has grown, it should draw up a plan to expand further over time into the independent financial entity that was proposed under MG IV. The degree to which this is actually possible within the context of ADRA/CO must be determined. There is no reason that it cannot be formally studied, proposed, and planned, unless it is not institutionally realistic.
8. Final creation of the GEMS (or global MIS) should be pursued more actively than has been the case. Much visionary thinking has gone in to this concept, and it would be impressive for it to truly emerge in the near future.
9. ADRA/CO should formally document its experience in creating the Peru micro-finance model, including a detailed description of lessons learned at every step. It should also convert the Start-up Manual into a complete guide to project initiation, pulling together the various materials into substantive chapters. This will assist other network countries to replicate the model, while avoiding some of the pitfalls that tend to occur.
10. In future reporting to USAID or other donors, annual reports should provide considerably more narrative detail than has been the case under MG IV. There is a great deal more in terms of accomplishments or lessons learned that is not now being reported in this format. If ADRA wishes to limit the text, it can append more detail on various programmatic accomplishments or policy decisions to the annual report, as it did at the end of Year 1.
11. If USAID/PVC wishes to evaluate matching grant programs along dimensions of capacity building, institutional strengthening, human resource development, management improvement, and partnership, it should be sure to specify these objectives in the request for proposals and provide indicators of their successful achievement. In this way, the US PVO can plan to meet such outcomes, stipulate precise institutional development indicators, and be held accountable for progress toward objectives during evaluation. It is also true that many of the institutional accomplishments may best be judged by the appropriateness, cost-effectiveness, scale, and impact of service delivery.

ANNEX 1

LIST OF PERSONS CONTACTED

ADRA/CO (International)

- | | |
|----------------------|---|
| 1. Carol Elwin | Director, Office of Economic Development, Program Bureau |
| 2. Cassia Pacheco | Technical Assistant, Economic Development, Program Bureau |
| 3. Randy Purviance | Chief, Program Management Bureau |
| 4. Ed Baber | Senior Financial Officer, Program Management Bureau |
| 5. Rodolfo Monsalve | Senior Grants Administrator, Program Management Bureau |
| 6. Jennifer Schmidt | Technical Assistant, Planning Bureau |
| 7. Jeff Wright | Technical Assistant, Planning Bureau |
| 8. Gwen Gessel | Information Manager, Finance and Operations Bureau |
| 9. Mike Odera | Financial Desk Officer, Finance and Operations Bureau |
| 10. Jennifer Ireland | Information Office Manager, Finance and Operations Bureau |
| 11. David Peters | Chief, Corporate Partnerships, Marketing and Development Bureau |
| 12. Solomon Wako | Chief, Office of Evaluation, Internal Control and Compliance Bureau |

ADRA/Peru Country Office

- | | |
|--------------------|--|
| 1. Ronald Kuhn | Director General, Lima |
| 2. John Wilcox | Director of Operations, Lima |
| 3. Percy Villazana | Administrator, Economic Development Office, Lima |
| 4. Bernice Mendoza | Financial Officer, Economic Development Office, Lima |
| 5. Indira Melgar | Program Assistant, Economic Development Office, Lima |
| 6. Flavio Quispe | Regional Administrator, Cuzco Regional Office |
| 7. Yvan Castro | Director, Planning and Quality, Lima |
| 8. Victor Huaman | Administrator, Infrastructure and Basic Services, Lima |
| 9. Carlos Olivera | Manager, Planning and Quality, Lima |
| 10. Juan Aparicio | Director, Disaster Response and Prevention, Lima |

Credit Officers

- | | |
|--------------------|--|
| 1. Deizy Calli | Credit Officer, Economic Development, Cuzco Regional Office |
| 2. Antonieta Arana | Credit Officer, Economic Development, Cuzco Regional Office |
| 3. Tania Cutipa | Credit Officer, Economic Development, Cuzco Regional Office |
| 4. Vlady Chambi | Credit Officer, Economic Development, Lima (Los Olivos) |
| 5. Mireya Paredes | Credit Officer, Economic Development, Lima (Los Olivos) |
| 6. Jose Rivas | Credit Officer, Economic Development, Lima (Los Olivos) |
| 7. Lucy Villanueva | Credit Officer, Economic Development, Lima (Huaycan) |
| 8. Cesia Quispe | Credit Officer, Economic Development, Lima (Huaycan) |
| 9. Lady Delgado | Credit Officer trainee, Economic Development, Lima (Huaycan) |

Other Organizations in Peru

1. Manrique Borda Dean, Universidad de San Antonio Abad del Cuzco, Cuzco
2. Juan Portillo Administrator, Universidad de San Antonio Abad del Cuzco, Cuzco
3. Eudes Guevara Deputy Director, Investment Promotion, CTAR, Cuzco
4. Yovana Cruz Director, Cuzco Regional Office, IFOCC, Cuzco
5. Iris Lanao Executive Director, FINCA Peru, Lima
6. Edwin Cisneros Dean, Universidad Peruana Union, Lima (Nana)

USAID/Peru

1. Mike Kaiser Chief, Economic Development Team, USAID/Peru
2. Jaime Gisecke Economic Development Officer, USAID/Peru
3. Eduardo Alvareda Economic Development Officer, USAID/Peru
4. Alfredo Gutierrez Project Manager, Title II, USAID/Peru

USAID/Washington

1. Tom Kennedy Grants Manager, Office of Private and Voluntary Cooperation
2. Mari Clarke Project Manager, PVC Support Project, AMA Technologies, Inc.
3. Mary Liakos Evaluation Officer, PVC Support Project, AMA Technologies, Inc.

ANNEX 2

LIST OF DOCUMENTS REVIEWED

1. ADRA. 1995. Matching Grant Application: FY 1996. Silver Spring, MD.
2. ADRA. 1997. Matching Grant IV: Detailed Implementation Plan. Silver Spring, MD.
3. ADRA. 1997. Strategic Plan: Economic Development. Silver Spring, MD.
4. ADRA. 1997. Matching Grant IV: Annual Report Year One. Silver Spring, MD.
5. ADRA. 1998. Matching Grant IV: Annual Report Year Two. Silver Spring, MD.
6. ADRA. 1999. Matching Grant IV: Annual Report Year Three. Silver Spring, MD.
7. ADRA/Peru. 1997. Business Plan for ADRA/Peru. Lima, Peru.
8. ADRA/Peru. 1999. Portafolio de Desarrollo Economico: Planificacion Estrategica. Lima, Peru.
9. ADRA/Peru. 1998. Manual de Bancos Comunes. Lima, Peru.
10. ADRA/Peru. 1999. Manual de ADRA Banking. Lima, Peru.
11. USAID/OP. 1996. Matching Grant Agreement. Washington, DC
12. USAID/PVC. 1996. Strategic Plan (1996-2000). Abbreviated Version. Washington, DC.
13. USAID/PVC. 1998. Results Review and Resource Request: FY 1997. Washington, DC.
14. USAID/PVC. 1999. Results Review and Resource Request: FY 1998. Washington, DC.

ANNEX 3

CONSULTANCIES AND DOCUMENTATION PRODUCED UNDER MG IV

Dr. Cheryl Lassen for program planning, designing, and 2-week start-up training of ADRA HQ and Peru staff held in Nana, Peru. November - December, 1996.

German Pagett for designing a Financial Management Information System (FMIS), called ADRA Banking, for loan tracking for field activities and network consolidation.

Tamara Duggleby for developing a business plan for starting a micro-finance initiative in ADRA Ghana and developing a framework for business planning for the ADRA network. September - December, 1998.

John Porges for developing a business plan for ADRA/Peru. October, 1998.

Tony Sheldon for conducting a training session on Business Planning and Financial Modeling of MFIs in Costa Rica for the ADRA network. March, 1999.

Robert Brock for developing a projections model for financial planning. July, 1999 - present.

Local Partner Consultancies (ADRA/Peru)

Julio Fernandez, Group Training and Managements Techniques, second semester, 1998

Carlos Pari, Local consultancy for the Accounting System, second semester, 1998

Marlen Espinal, Technical Assitence on Implementation and monitoring of Village Banks, July, 1997

Martin Villafuerte, Local consultant for Analisis and interpretation of Financial Indicators, second semester, 1998

TRAINING:

Two-Week Start-up Training Session for ADRA/Peru. Conducted in Nana, Peru, by ADRA HQ and consultant Cheryl Lassen, December 1996.

Courses on Economic Development and Micro-Finance and Development held in Kenya, Peru, Costa Rica, and Thailand for ADRA Network staff, conducted by ADRA HQ. January - April, 1999.

Business Planning and Financial Modeling Workshop held in Kenya, Peru, Costa Rica, and Thailand for ADRA Network staff, conducted by ADRA HQ and consultant Tony Sheldon.

January - April, 1999.

Participation of ADRA/Peru staff in local Training Sessions

Business Planning and Financial Modeling Workshop, held in Lima, conducted by Chuck Waterfield, sponsored by USAID Mission in Peru. March 1999

Impact Evaluation AIMS - SEEP Training, held in Cusco, sponsored by USAID, COPEME, and ADEX. November 1998.

Analisis Financiero del Riesgo de Creditos, held in Lima, sponsored by the Universidad Catolica del Peru. August 1998.

DOCUMENTATION:

Management Agreement between ADRA HQ and ADRA/Peru.

Strategic Plan for ADRA's Office of Economic Development.

Start-Up Manual for Micro-Finance Initiatives (includes training curricula for program staff and corresponding training materials). Produced in Spanish and in progress in English.

Policies and Procedures Manual for Village Banking Program in ADRA/Peru. Produced in Spanish.

Accounting system and for Village Banking program. Produced in Spanish and in progress in English.

Course Modules for Economic Development and Micro-Finance and Development. Produced in Spanish and English.

Course Reader for Economic Development and Micro-Finance and Development. Produced in Spanish and English.

Business Plan for ADRA/Peru. Produced in Spanish.

Training curricula for clients. Produced in Spanish and in progress in English.

Training materials for client training. Produced in Spanish and in progress in English.

A Guide to Institutional Business Planning. Produced in Spanish and English.

MIS Manual. In progress in Spanish and English.

TECHNICAL EXCHANGE VISITS:

12. Visit to ADRA Bangladesh, ADRA Indonesia, ADRA Sri Lanka, ADRA Bolivia for peer exchange.
13. Visit to ADRA Ghana for program planning.
14. Technical assistance to ADRA Azerbaijan and ADRA Honduras for program planning, design, and start-up training.
15. Peer exchange with Opportunity International Headquarters.

ADRA/Peru Peer Exchange Visits

16. Peer exchange with FINCA, ARARIVA, ALTERNATIVAS, (all local institutions)
17. Peer exchange visits to Pro Mujer and CRECER in Bolivia
18. Peer exchange visit to Opportunity International Partner, FAMA, CHISPA, in Nicaragua, and Project HOPE, ODEF, FAMA, World Relief, and ADRA in Honduras.

SYSTEM DEVELOPMENT:

Designed and installed ADRA Banking, a computerized loan tracking system, currently operating in the micro-finance programs in both regions of Peru - Cusco and Lima, Azerbaijan, and ADRA HQ. To be installed this year in Ghana, Georgia, Guinea and Honduras.

ANNEX 4

EVALUATION SCOPE OF WORK

Final Evaluation of ADRA International's Performance under its Matching Grant
Cooperative Agreement

I PROGRAM IDENTIFICATION

Name of PVO: Adventist Development and Relief Agency International
Address: 12501 Old Columbia Pike, Silver Spring, MD. 20904
Contract Number: FAO-A-00-96-90049-00 (new no., formerly FAO-0158-A-00-6049-00)
Grant Period: September 30, 1996 – September 29, 2000
Country Programs: Peru

II PROGRAM BACKGROUND

Beginning in 1994, ADRA/Peru and ADRA Central Office agreed to partner in the design and implementation of a Village Banking Micro-Lending Program.

In 1996, a three-year Matching Grant was awarded to the ADRA Central Office in the United States. ADRA Central Office partnered with ADRA/Peru for the implementation of the program and an Agreement was made outlining the terms and conditions under which the program is to be operated and implemented. Specific roles are defined in the partnership agreement for both the Central Office and ADRA/Peru.

As stipulated in the cooperative agreement, the purpose of the project is to increase the capacity of the Adventist Development and Relief Agency's (ADRA) worldwide network to deliver effective microenterprise lending services to the poor. This Matching Grant was designed to strengthen ADRA's institutional capacity for microenterprise programming by: 1) providing experience and lessons learned in the utilization of a refined credit/lending methodology which will be disseminated throughout the ADRA network; 2) creating a pool of experienced staff capable of planning, managing and monitoring credit programs and; 3) facilitating the development of network-wide policies/mechanisms which improve efficiency and effectiveness in economic development initiatives.

The principle activities identified in the cooperative agreement are as follows:

- ADRA will launch specialized microenterprise lending activities in Peru. This initiative will a) share the vision of stimulating commercial activity and alleviating individual poverty by providing credit services to those previously denied loans, b) target primarily very low income women, and secondarily the bottom 20% of the population, and c) target rural and peri-urban communities.

- Develop manuals, training materials and Management Information System (MIS) which can be modified to fit microenterprise programs throughout the ADRA network. ADRA will document lessons learned, focusing particularly on Peru, and will disseminate these lessons through three major workshops for its international network. Audiences will include regional personnel, country directors and other key staff from approximately 50 countries currently involved in implementing development-oriented programs.

Implementation Status:

The cooperative agreement has been in progress since September 30, 1996 and is due to be completed on September 29, 2000. The original cooperative agreement end date was September 29, 1999; however, ADRA received a one-year no-cost extension to complete its activities under this Matching Grant.

Program Goals and Objectives:

Goals:

- 1) Develop institutional capacity to design and implement micro-credit programs.
- 2) Contribute to the reduction of poverty through the provision of credit and other financial services to poor micro-entrepreneurs.

Objectives: The following are objectives for the Matching Grant as stated in the Detailed Implementation Plan (DIP):

- 1) Refine the Village Banking model and apply at country level in Peru.
- 2) Design and implement Management Information Systems.
- 3) Design and implement operation systems.
- 4) Achieve a gradual increase in operational self-sufficiency to reach 55% by the end of year 3 and 98% by year 5.
- 5) Identify up to five potential countries to implement new programs.

Availability of Data

The availability of data from annual reports, the program monitoring and evaluation system and program files at ADRA Co and ADRA/Peru.

ADRA/Peru: annual reports, operational manuals, MIS reports, group and client records.

ADRA Central Office: annual reports, MIS.

III PURPOSE OF THE EVALUATION

The purpose of the evaluation is to assess the level of accomplishment of proposed program objectives, while identifying areas of strengths and weaknesses which both ADRA/Peru and ADRA Central Office can embrace and will need to address to build their capacity to implement sustainable microenterprise initiatives. Within this overall context, the evaluation responds to the following issues:

- The need for an objective, outside assessment of ADRA's accomplishments in microenterprise programming;
- A forum for ADRA's staff to analyze the strengths and weaknesses of the organization's microenterprise programming;
- An analysis of how well this programming has fit into ADRA's mission and strategic objectives;
- Identification of the key challenges ADRA faces to insure the success of its microenterprise initiatives;
- Recommendations for any modifications in program design.

In addition to determining whether ADRA has met the objectives outlined in the DIP and the cooperative agreement, BHR/PVC is interested in documenting broader level results that ADRA has achieved under this Matching Grant. For example the evaluator should:

- Evaluate ADRA's success in developing and implementing its Global Electronic Monitoring System (GEMS). The DIP states "Reports generated through the GEMS process will facilitate a more timely access to important information and increase the tools available for decision making". What results have occurred due to GEMS?
- Under this Matching Grant, ADRA intended to design training curricula at three institutional levels: ADRA Executives, Program Administration and Operations Personnel. ADRA's technical assistance/training strategy and curricula should be assessed. What are the benefits/results from the training program that ADRA has designed?
- ADRA's sustainability strategy focuses on organizational development, institutionalization of financial services and program design. How effective has ADRA been in developing and implementing this strategy? What are the quantifiable results of this strategy?
- Has MED programming had a significant impact on the strategic and organizational planning of ADRA CO and ADRA/Peru? How do other non-MED ADRA managers and technical staff perceive microenterprise programming? Has this initiative influenced non-MED programs? Is MED viewed institutionally to be a central part of ADRA's mission?

While the cooperative agreement and the DIP provide the agreed-upon objectives that ADRA is expected to achieve in order to fulfill its contractual agreement with USAID, BHR/PVC is also interested in documenting the broader results that ADRA has achieved under this Matching Grant. The evaluator is therefore expected to undertake a comprehensive assessment of ADRA's microenterprise programming and not focus only on the objectives as outlined in the DIP. Wherever possible, tangible, quantifiable results should be documented.

This final evaluation fulfills the requirements of the USAID/BHR/PVC Matching Grants Program. PVC will use this information in its annual Results Report and in the review of any follow-on proposals from ADRA.

IV. EVALUATOR STATEMENT OF WORK

The evaluator will assess the following program and institutional elements, providing evidence, criteria for judgment and citing data sources. The evaluator will assess both headquarters and the country-level program in Peru. An estimate of the emphasis or level of effort for each segment of the SOW is in italicized brackets.

- A. Program Implementation: *[EMPHASIS FOR THIS EVALUATION --- 60%]*
1. Assess progress towards each major objective *[subtotal -- 40%]*
 - Based on the logframe/program planning matrix, or statement of program purpose from the proposal, have objectives been met?
 - Identify constraints and unanticipated effects
 - Identify major successes and why these elements were successful
 - Assess effectiveness of models, approaches or assumption that underlie the program.
 2. Assess progress towards sustainability *[subtotal --- 30%]*
 - What program elements are intended to be sustained? What are the sustainability objectives? What are the indicators used to measure progress? What are the achievements to date? And prospects for post-grant sustainability?
 - Describe the existence and status of cost-recovery mechanisms, local level financing or approaches to generate resources to support project operations.
 3. Assess the status of strategic partnership(s) with NGOs, community based organizations, businesses and/or local government. *[subtotal---30%]*

Section E.2 of the DIP states that “....ADRA is creating a dynamic process of becoming a learning organization capable of influencing and adapting to a continually changing micro-credit environment.” Organizational linkages are indicated to be a major factor in this development. The extent to which these linkages have occurred and assisted ADRA into becoming a “learning organization” should be explored. Refer to section E.2 of the DIP and respond to the specific linkages noted.

- Characterize "partnerships" with local level partners
 - Role, responsibilities (decision-making power);
 - Mechanisms employed (MOU, subgrants, contract etc); and
 - Fiscal autonomy & amount of grant funds directly managed in past year.

How did the program plan to assess the quality and scope of partner relations?

- impact of the partnership on the program

- What change in capacity of local level partner was planned? achieved?
- effects of training or resource transfer on local partners capacity
- Assess the local level partners satisfaction with the partnership
- has the interface and communications among PVO headquarter and partners been effective?
- do partners have reliable access to email/internet?

4. Cite the major implementation lessons learned and recommendations.

B. Program Management [*TOTAL EMPHASIS FOR THIS EVALUATION --- 40%*]

1. Assess change in the organization's management capacity (structure & quality of management) as a result of grant.

▪ Strategic Approach and Program Planning [*subtotal -- 40%*]

What changes have occurred in the organization's capacity for critical and analytic thinking regarding program design and impact? Evidence that the program has:

- Fostered analysis and self evaluation in country programs, or conducted quantitative or qualitative analysis to refine interventions;
- conducted periodic review of performance data by project personnel and taken actions as a result of review;
- institutionalized performance monitoring and impact evaluation systems into other non-PVC grant funded programs;
- developed strategic plans and/or business plans for both ADRA CO and ADRA/Peru.

Are there changes in headquarters capacity to: (i) manage the planning process --- program renewal, strategy integration, project design; (ii) address over-arching program issues of replicability, scale-up, sustainability; (iii) forecasting and strategic planning; and (iv) organizational development, financial planning and development.

Do both ADRA CO and ADRA/Peru have active governing boards? Is the background/experience/commitment of ADRA/Peru's board members suitable for this NGOs increased emphasis on economic development? Does the board and

ADRA/Peru's management have a clear understanding of their respective roles and responsibilities?

▪ Monitoring and Evaluation [subtotal 35%]

Assess the capacity of the organization to monitor program performance and measure impact. Give evidence of:

- appropriate intervention specific; capacity building and sustainability objectives & indicators;
- developed baseline assessment and plans for final assessment;
- knowledge of and use of impact and performance measurement techniques;
- system (e.g., MIS) to consolidate, analyze and interpret project data; and
- transfer of skills and capacity to local partners

The development of ADRA's management information system is a key component of this Matching Grant. Detailed discussion of ADRA's implementation of the Global Electronic Monitoring System (GEMS) should be provided along with an assessment of ADRA's MIS development referring to Appendices D, E, and F in the DIP.

▪ Financial Management [subtotal --- 5%]

- Are adequate financial monitoring systems in place to verify program revenue, operating and financial expense, other inputs and outputs?
- Has the program leveraged additional resources (beyond the match)?
- What is the cost effectiveness of the program?

▪ Information [subtotal ---5%]

Comment on the utility and timeliness of ADRA's required reports.

▪ Logistics --- [subtotal --- 5%]

- Comment on the adequacy and timeliness of ADRA's material

inputs.

▪ Supervision [subtotal --- 5%]

Assess if there were sufficient staff with the appropriate technical and management skills to oversee program activity at both headquarters and in the field programs

▪ Human Resource Development --- [subtotal --- 5%]

- Does ADRA assess staff training needs and strengthen the organization and local partner's professional or technical capacity?
- DO ADRA CO and ADRA/Peru pay competitive salaries and benefits for technical, professional and managerial staff? Is staff retention/turnover an issue?

4. Cite the major lessons learned and management recommendations.

Based on findings from the process outlined above, the Evaluator will respond to the specific questions under section "B" of the "Guidelines for Matching Grant Evaluations". The responses will then be discussed and reviewed with management and technical staff from both the country and headquarters offices.

V. EVALUATION METHODS

A. Approach

ADRA's microenterprise program was developed and funded prior to the Agency's emphasis on results-oriented program designs and the development of PVCs Strategic Plan. The data from all PVC funded programs is critical to PVC's ability to report on achievements against the Office's Strategic Plan. Until all current PVC-funded programs have made the transition to a more results-oriented project plans, it will be necessary for the evaluator to conduct a *team-planning meeting* with the PVO and local partners to:

- ◆ refine and consolidate the purpose-level objectives and outputs into a set of results-oriented objectives; and
- ◆ agree upon a set of appropriate indicators against which the evaluation will assess the achievement of project results outlined in the SOW and will be judged. And where necessary, identify criteria for judgment.

B. Methodology

The Evaluator will:

- ◆ assess the appropriateness of using the data collection approaches;
- ◆ use the Agency's microenterprise (ME) indicators to assess the status of the ME intervention;
- ◆ document data sources; and
- ◆ provide, a copy (electronic or paper) of all primary data collected and analysis performed.

The evaluator will meet with ADRA CO staff and the USAID project officer to define strategies for conducting the process outlined under the above section "A" Program Implementation, define evaluation team members and leader, and criteria to be used for judgment of program accomplishments.

The process of evaluating ADRA's progress towards meeting each major objective will include the following:

ADRA/PERU:

1. Review of program documents: DIP, annual reports, program policies and procedures manuals, client training curricula, MIS reports, Business Plan.
2. Review of management systems: accounting and loan tracking systems.
3. Meeting with program staff to assess knowledge of program methodology, level of interest and commitment to program goals, training needs, constraints in program implementation.
4. Field visits to group meetings to conduct client interviews to assess the effectiveness of program methodology and approaches.

ADRA CO:

5. Review documentation: training curricula, manuals, and systems.
6. Meeting with leadership, management and technical staff.

The process of evaluating ADRA's progress towards achieving sustainability will include the following:

ADRA/PERU:

19. Meeting with ADRA/Peru administrative and management staff to assess leadership vision for the future of the agency's micro finance portfolio, and discuss steps taking and plans for future financing.
20. Review MIS reports for status of indicators.

ADRA CO:

21. Meeting with ADRA CO leadership, management and technical staff to assess leadership vision for the future of the agency's micro finance portfolio, and discuss plans for implementing cost recovery mechanisms and financing strategies.
22. Assess the status of strategic partnership(s) with NGOs, community based organizations or local level government. *[subtotal --- 10%]*

The process of evaluating ADRA's progress towards developing partnerships will include the following:

ADRA/PERU:

1. Meeting with ADRA/Peru administration and management staff to discuss the characteristics of existing partnership with ADRA CO, its effectiveness and satisfaction with the partnership.

ADRA CO:

2. Meeting with ADRA CO management and technical staff to discuss strategies for assessing impact of the partnership on program implementation and partner's capacity.

The process of determining lessons learned and formulating recommendations will include the following:

1. *Meeting with management and program staff from both ADRA/Peru and ADRA CO offices, to discuss lessons learned in program implementation, management, technical oversight, and recommendation.*

VI TEAM COMPOSITION AND PARTICIPATION

A. Composition

- One outside evaluator
- One representative from ADRA's headquarters
- Selected programmatic and technical staff from the affiliate in Peru.

B. Language Requirements

- The external evaluator working in Peru should have fluent Spanish language capability.

B. Technical Expertise

- Knowledge and experience in the field of organizational development.
- Knowledge and experience in microfinance.
- Knowledge and experience working with international non-profit organizations.

VII SCHEDULE

The evaluation will be conducted during January 2000 as per the following schedule:

Document Review – 2 days (Jan. 6-7)

Briefing at AID and ADRA Headquarters Review – 3 days (Jan. 10-12)

Peru Field Work – 9 days (Jan. 13-20)

Report Writing – 5 days (by Feb. 15)

Final Revisions – 2 days (by March 13)

Total estimate time—21 days.

VIII REPORTING AND DISSEMINATION REQUIREMENTS

The statement of work will serve as the outline for the evaluation report.

Delivery schedule:

The draft of the report will be submitted to AmaTech for review by February 15, 2000. If the draft needs no further clarification and meets the terms set forth in the Scope of Work, AmaTech will forward the draft to the PVC Project Officer who will further review it. If the draft needs additional clarification or does not meet the Scope of Work, the draft will be returned to the evaluator who will make the necessary changes. Upon the approval of the PVC Project Officer, AmaTech will send the draft forward to ADRA CO for their review. The final report will be submitted to USAID and ADRA CO by March 13, 2000. The authority for clearance on the report rests in the hands of the PVC Project Officer.